

AUDIT REPORT

CITY OF FINLEY
Finley, North Dakota

For the Years Ended December 31, 2016 and 2015

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF FINLEY
Finley, North Dakota

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CITY OF FINLEY
Finley, North Dakota

CITY OFFICIALS

Larry Amundson	Mayor
Tori Archer	Council Member
Merle Ferry	Council Member
Jake Klosner	Council Member
Brian Tuite	Council Member
Marci Johnson	Auditor

Rath & Mehrer, P.C.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Finley
Finley, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Finley, Finley, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 judgement, 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 city'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 city'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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Finley, Finley, North Dakota, as of December 31, 2016 and 2015, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions 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 audits 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 management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

October 6, 2017

CITY OF FINLEY

Management's Discussion and Analysis

December 31, 2016 and 2015

The Management's Discussion and Analysis (MD&A) of the City of Finley's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2016 and 2015. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city increased \$508,523 as a result of the current year's operations. Net position of the governmental activities increased \$14,419 and net position of the business-type activities increased \$494,104.
- * Governmental net position totaled \$555,927 and business-type net position totaled \$2,552,175.
- * Total revenues from all sources were \$377,477 for governmental activities and \$803,319 for business-type activities.
- * Total expenses were \$363,058 for governmental activities and \$309,215 for business-type activities.
- * The city's general fund had \$178,316 in total revenues and \$218,663 in total expenditures. Overall, the general fund balance decreased by \$40,347 for the year ended December 31, 2016.

Key financial highlights for the year ended December 31, 2015 are as follows:

- * Total net position of the city increased \$98,137 as a result of the current year's operations. Net position of the governmental activities increased \$59,692 and net position of the business-type activities increased \$38,445.
- * Governmental net position totaled \$541,508 and business-type net position totaled \$2,058,071.
- * Total revenues from all sources were \$404,635 for governmental activities and \$354,616 for business-type activities.
- * Total expenses were \$344,944 for governmental activities and \$316,170 for business-type activities.
- * The city's general fund had \$162,388 in total revenues and \$193,394 in total expenditures. Overall, the general fund balance decreased by \$31,005 for the year ended December 31, 2015.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- * Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- * Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the years ended December 31, 2016 and 2015?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, culture and recreation and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, sales tax fund and Finley industrial park fund are considered "major governmental funds". The city's enterprise operating fund, water main replacement 2001-1 fund, sewer rehabilitation 2009 fund and water tower fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2016 and 2015. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position increased by \$508,523 and \$98,137 for the years ended December 31, 2016 and 2015, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2016 the city's net position of \$3,108,102 is segregated into three separate categories. Net investment in capital assets totals \$2,113,380. It should be noted that these assets are not available for future spending. The restricted component of net position is \$793,685 of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is \$201,037 which includes (\$53,522) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$254,559 is available to meet the city's ongoing obligations.

Table I

Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	401,486	646,758
Capital Assets (net of accumulated depreciation)	930,501	4,122,317
 Total Assets	 1,331,987	 4,769,075
 Deferred Outflows of Resources	 32,876	 0
<u>Liabilities</u>		
Current Liabilities	103,470	172,599
Long-Term Liabilities	619,069	2,044,301
Net Pension Liability	68,896	
 Total Liabilities	 791,434	 2,216,900
 Deferred Inflows of Resources	 17,502	 0
<u>Net Position</u>		
Net Investment in		
Capital Assets	207,963	1,905,417
Restricted	261,738	531,948
Unrestricted	86,226	114,810
 Total Net Position	 555,927	 2,552,175
	=====	=====

As of December 31, 2015 the city's net position of \$2,599,578 is segregated into three separate categories. Net investment in capital assets totals \$1,721,366. It should be noted that these assets are not available for future spending. The restricted component of net position is \$650,475 of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is \$227,737 which includes (\$48,469) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$276,206 is available to meet the city's ongoing obligations.

Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	684,147	1,001,424
Capital Assets (net of accumulated depreciation)	723,889	3,371,073
Total Assets	<u>1,408,036</u>	<u>4,372,497</u>
Deferred Outflows of Resources	<u>6,106</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	95,521	755,526
Long-Term Liabilities	722,538	1,558,800
Net Pension Liability	45,662	
Total Liabilities	<u>863,721</u>	<u>2,314,326</u>
Deferred Inflows of Resources	<u>8,913</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	266,408	1,454,958
Restricted	141,064	509,412
Unrestricted	134,037	93,701
Total Net Position	<u>541,508</u> =====	<u>2,058,071</u> =====

Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	303,396	575,699
Capital Assets (net of accumulated depreciation)	695,610	3,325,146
Total Assets	<u>999,006</u>	<u>3,900,845</u>
Deferred Outflows of Resources	<u>4,406</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	69,492	160,793
Long-Term Liabilities	399,292	1,720,426
Net Pension Liability	52,812	
Total Liabilities	<u>521,596</u>	<u>1,881,219</u>
Deferred Inflows of Resources	<u>48,406</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	226,826	1,443,926
Restricted	89,885	483,991
Unrestricted	165,105	91,708
Total Net Position	<u>481,816</u> =====	<u>2,019,625</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2016 and 2015. A comparative analysis of city-wide data is presented for both current years and prior year.

Table II

Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	36,615	252,932
Operating Grants and Contributions	62,029	550,387
<u>General Revenues:</u>		
Property Taxes	154,976	
Other Taxes	67,433	
Intergovernmental - Unrestricted	33,362	
Interest Earnings and Other Revenue	23,063	
Total Revenues	377,477	803,319
Expenses		
General Government	123,786	
Public Safety	29,819	
Streets and Public Works	167,347	
Culture and Recreation	6,618	
Other	8,860	
Interest on Long-Term Debt	26,627	
Water, Sewer and Garbage		115,943
Water Main Replacement		92,324
Sewer Rehabilitation		80,020
Water Tower		20,927
Total Expenses	363,058	309,215
Net Change in Position	14,419	494,104

Property taxes constituted 13%, other taxes 6%, unrestricted intergovernmental 3%, grants and contributions 52%, and charges for services made up 25% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 18%, streets and public works 25%, and enterprise 46% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	19,833	223,882
Operating Grants and Contributions	70,135	130,018
<u>General Revenues:</u>		
Property Taxes	122,984	
Other Taxes	116,452	
Intergovernmental - Unrestricted	50,712	
Interest Earnings and Other Revenue	21,165	716
Gain on Trade-in of Capital Assets	3,355	
Total Revenues	404,635	354,616
Expenses		
General Government	121,056	
Public Safety	20,459	
Streets and Public Works	169,523	
Culture and Recreation	11,120	
Other	1,147	
Discount on Bonds Issued	6,000	
Interest on Long-Term Debt	15,639	
Water, Sewer and Garbage		118,606
Water Main Replacement		96,431
Sewer Rehabilitation		80,668
Water Tower		20,465
Total Expenses	344,944	316,170
Net Change in Position	59,692	38,445
	=====	=====

Property taxes constituted 16%, other taxes 15%, unrestricted intergovernmental 7%, grants and contributions 26%, and charges for services made up 32% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 18%, streets and public works 26%, and enterprise 48% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	22,258	237,620
Operating Grants and Contributions	72,231	106,086
<u>General Revenues:</u>		
Property Taxes	135,188	
Other Taxes	106,344	
Intergovernmental - Unrestricted	49,455	
Interest Earnings and Other Revenue	49,828	747
Gain on Trade-In of Capital Assets	10,700	
Total Revenues	446,004	344,453
Expenses		
General Government	152,901	
Public Safety	39,038	
Streets and Public Works	145,132	
Culture and Recreation	16,915	
Other	11,766	
Interest on Long-Term Debt	14,639	
Water, Sewer and Garbage		130,640
Water Main Replacement		100,556
Sewer Rehabilitation		81,380
Total Expenses	380,391	312,576
Net Change in Position	65,613	31,877

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services
As of December 31, 2016

	<u>Total Cost Year Ended Dec. 31, 2016</u>	<u>Net Cost Year Ended Dec. 31, 2016</u>
General Government	123,786	102,776
Public Safety	29,819	29,819
Streets and Public Works	167,347	89,714
Culture and Recreation	6,618	6,618
Other	8,860	8,860
Interest on Long-Term Debt	26,627	26,627
Total Expenses	363,058	264,414

Total and Net Cost of Services
As of December 31, 2015

	Total Cost Year Ended <u>Dec. 31, 2015</u>	Net Cost Year Ended <u>Dec. 31, 2015</u>
General Government	121,056	118,967
Public Safety	20,459	20,459
Streets and Public Works	169,523	81,644
Culture and Recreation	11,120	11,120
Other	1,147	1,147
Discount on Bonds Issued	6,000	6,000
Interest on Long-Term Debt	15,639	15,639
Total Expenses	<u>344,944</u> =====	<u>254,976</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$377,477 and expenditures of \$660,138 for the year ended December 31, 2016. For the year ended December 31, 2015, the city's governmental funds had total revenue of \$401,280 and expenditures of \$433,529. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$142,158 and total unassigned fund balance for all the city's governmental funds was \$139,748. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$182,506.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2016 and 2015, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2016 was \$28,274 more than budgeted. This variance was mainly due to the city underestimating revenues for building permits and state aid distribution. Actual expenditures for the year ended December 31, 2016 were under budget by \$32,790. This variance was mainly due to the city overestimating appropriations for general government.

Actual revenue for the year ended December 31, 2015 was \$26,798 more than budgeted. This variance was mainly due to the city underestimating revenues for state aid. Actual expenditures for the year ended December 31, 2015 were under budget by \$38,064. This variance was mainly due to the city overestimating appropriations for general government.

CAPITAL ASSETS

As of December 31, 2016 and 2015, the city had \$5,052,818 and \$4,094,962, respectively, invested in capital assets. The following tables show the balances, for governmental and business-type activities, as of December 31, 2016, 2015 and 2014.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Land	105,000	
Construction in Progress		1,055,763
Buildings and Infrastructure	511,412	3,061,454
Machinery and Vehicles	314,089	5,100
Total (net of depreciation)	<u>930,501</u>	<u>4,122,317</u>
	=====	=====

This total represents an increase of \$957,856 in capital assets from January 1, 2016. The increase in construction in progress was due to a continuing water tower project. The increase in buildings and infrastructure was due to the completion of improvements to Finley industrial park.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Land	105,000	
Construction in Progress	33,422	175,223
Buildings and Infrastructure	247,145	3,189,900
Machinery and Vehicles	338,322	5,950
Total (net of depreciation)	<u>723,889</u>	<u>3,371,073</u>
	=====	=====

This total represents an increase of \$74,206 in capital assets from January 1, 2015. The increase in construction in progress was due to a water tower project and improvements to Finley industrial park. Also, the city purchased a pickup in 2015.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Land	105,000	
Buildings and Infrastructure	260,631	3,318,346
Machinery and Vehicles	329,979	6,800
Total (net of depreciation)	<u>695,610</u>	<u>3,325,146</u>
	=====	=====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$2,939,438 in outstanding debt of which \$276,068 was due within one year. As of December 31, 2015, the city had \$3,132,486 in outstanding debt of which \$851,047 was due within one year.

During fiscal years 2016 and 2015, the city issued four new long-term debt obligations.

Bank Loan Payable in the amount of \$19,000. The city obtained financing to purchase a 2015 Silverado pickup. This loan will have a final payment on October 15, 2019.

Special Assessment Bonds Payable in the amount of \$400,000. The city issued the Refunding Improvement Bonds of 2015 to fund sewer and water improvements to Finley industrial park. These bonds will have a final payment on May 1, 2030.

Revenue Bonds Payable in the amount of \$594,000. The city issued the Temporary Revenue Bonds of 2015 for the purpose of obtaining interim financing for improvements to the city's water system. These bonds were refinanced during 2016.

Revenue Bonds Payable in the amount of \$658,000. The city issued the Revenue Bonds of 2016 for the purpose of refinancing the Temporary Revenue Bonds of 2015. These bonds will have a final payment on September 15, 2056.

For a detailed breakdown of the long-term debt, readers are referred to Note 6 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Marci Johnson, City Auditor, Finley, ND.

CITY OF FINLEY
Finley, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	401,486.04	646,758.29	1,048,244.33
Capital Assets (net of accumulated depreciation):			
Land	105,000.00		105,000.00
Construction in Progress		1,055,763.00	1,055,763.00
Buildings and Infrastructure	511,412.00	3,061,454.00	3,572,866.00
Machinery and Vehicles	314,089.00	5,100.00	319,189.00
Total Capital Assets	930,501.00	4,122,317.00	5,052,818.00
Total Assets	1,331,987.04	4,769,075.29	6,101,062.33
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	32,876.00		32,876.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loans Payable	37,139.36		37,139.36
Rural Water Loan Payable		2,236.10	2,236.10
Special Assessment Bonds Payable	20,000.00	23,645.00	43,645.00
Revenue Bonds Payable	46,330.20	146,718.00	193,048.20
Due After One Year:			
Bank Loans Payable	63,978.97		63,978.97
Rural Water Loan Payable		11,151.27	11,151.27
Special Assessment Bonds Payable	360,000.00	790,268.00	1,150,268.00
Revenue Bonds Payable	195,089.55	1,242,882.00	1,437,971.55
Net Pension Liability	68,896.00		68,896.00
Total Liabilities	791,434.08	2,216,900.37	3,008,334.45
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	17,502.00		17,502.00
NET POSITION:			
Net Investment in Capital Assets	207,962.92	1,905,416.63	2,113,379.55
Restricted for:			
Debt Service	107,026.86	531,947.87	638,974.73
Special Purposes	154,710.75		154,710.75
Unrestricted	86,226.43	114,810.42	201,036.85
Total Net Position	555,926.96	2,552,174.92	3,108,101.88

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

CITY OF FINLEY
Finley, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	684,147.27	1,001,423.97	1,685,571.24
Capital Assets (net of accumulated depreciation):			
Land	105,000.00		105,000.00
Construction in Progress	33,422.00	175,223.00	208,645.00
Buildings and Infrastructure	247,145.00	3,189,900.00	3,437,045.00
Machinery and Vehicles	338,322.00	5,950.00	344,272.00
Total Capital Assets	723,889.00	3,371,073.00	4,094,962.00
Total Assets	1,408,036.27	4,372,496.97	5,780,533.24
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	6,106.00		6,106.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loans Payable	35,221.19		35,221.19
Rural Water Loan Payable		2,170.09	2,170.09
Special Assessment Bonds Payable	20,000.00	22,956.00	42,956.00
Revenue Bonds Payable	40,300.20	730,400.00	770,700.20
Due After One Year:			
Bank Loans Payable	101,118.33		101,118.33
Rural Water Loan Payable		13,387.37	13,387.37
Special Assessment Bonds Payable	380,000.00	813,913.00	1,193,913.00
Revenue Bonds Payable	241,419.75	731,600.00	973,019.75
Net Pension Liability	45,662.00		45,662.00
Total Liabilities	863,721.47	2,314,426.46	3,178,147.93
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	8,913.00		8,913.00
NET POSITION:			
Net Investment in Capital Assets	266,407.53	1,454,958.19	1,721,365.72
Restricted for:			
Debt Service	7,897.27	509,411.59	517,308.86
Special Purposes	133,166.25		133,166.25
Unrestricted	134,036.75	93,700.73	227,737.48
Total Net Position	541,507.80	2,058,070.51	2,599,578.31

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

CITY OF FINLEY
Finley, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Functions/Programs</u>					
<u>Primary Government:</u>					
<u>Governmental Activities:</u>					
General Government	123,786.35	21,010.00		(102,776.35)	(102,776.35)
Public Safety	29,819.02			(29,819.02)	(29,819.02)
Streets and Public Works	167,347.27	15,605.00	62,028.50	(89,713.77)	(89,713.77)
Culture and Recreation	6,618.13			(6,618.13)	(6,618.13)
Other	8,859.52			(8,859.52)	(8,859.52)
Interest on Long-Term Debt	26,627.28			(26,627.28)	(26,627.28)
Total Governmental Activities	363,057.57	36,615.00	62,028.50	(264,414.07)	(264,414.07)
<u>Business-Type Activities:</u>					
Water, Sewer and Garbage	115,943.37	123,417.86		7,474.49	7,474.49
Water Main Replacement	92,324.00	45,436.07	103,225.77	56,337.84	56,337.84
Sewer Rehabilitation	80,020.10	63,072.68		(16,947.42)	(16,947.42)
Water Tower	20,927.39	21,005.86	447,161.03	447,239.50	447,239.50
Total Business-Type Activities	309,214.86	252,932.47	550,386.80	494,104.41	494,104.41
Total Primary Government	672,272.43	289,547.47	612,415.30	(264,414.07)	229,690.34
=====					
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes			104,664.64		104,664.64
Property taxes; levied for debt service			50,311.60		50,311.60
Sales taxes			66,085.70		66,085.70
Cigarette taxes			1,346.85		1,346.85
Intergovernmental revenue not restricted to specific programs			33,361.72		33,361.72
Earnings on investments and other revenue			23,062.72		23,062.72
Total General Revenues			278,833.23		278,833.23
Change in Net Position			14,419.16	494,104.41	508,523.57
Net Position - January 1			541,507.80	2,058,070.51	2,599,578.31
Net Position - December 31			555,926.96	2,552,174.92	3,108,101.88
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The accompanying notes are an integral part of these financial statements.

CITY OF FINLEY
Finley, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2015

Functions/Programs	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Primary Government:					
Governmental Activities:					
General Government	121,055.96	2,089.00		(118,966.96)	(118,966.96)
Public Safety	20,459.11			(20,459.11)	(20,459.11)
Streets and Public Works	169,522.70	17,743.78	70,134.95	(81,643.97)	(81,643.97)
Culture and Recreation	11,119.57			(11,119.57)	(11,119.57)
Other	1,147.12			(1,147.12)	(1,147.12)
Discount on Bonds Issued	6,000.00			(6,000.00)	(6,000.00)
Interest on Long-Term Debt	15,639.34			(15,639.34)	(15,639.34)
Total Governmental Activities	344,943.80	19,832.78	70,134.95	(254,976.07)	(254,976.07)
Business-Type Activities:					
Water, Sewer and Garbage	118,606.39	114,905.12		(3,701.27)	(3,701.27)
Water Main Replacement	96,431.00	45,108.96	130,017.60	78,695.56	78,695.56
Sewer Rehabilitation	80,667.55	63,867.92		(16,799.63)	(16,799.63)
Water Tower	20,465.35			(20,465.35)	(20,465.35)
Total Business-Type Activities	316,170.29	223,882.00	130,017.60	37,729.31	37,729.31
Total Primary Government	661,114.09	243,714.78	200,152.55	(254,976.07)	37,729.31
General Revenues:					
Taxes:					
Property taxes; levied for general purposes			93,876.05		93,876.05
Property taxes; levied for debt service			29,107.49		29,107.49
Sales taxes			115,007.63		115,007.63
Cigarette taxes			1,444.34		1,444.34
Intergovernmental revenue not restricted to specific programs			50,711.99		50,711.99
Earnings on investments and other revenue			21,165.17	716.15	21,881.32
Gain on trade-in of capital assets			3,355.00		3,355.00
Total General Revenues			314,667.67	716.15	315,383.82
Change in Net Position			59,691.60	38,445.46	98,137.06
Net Position - January 1			530,222.20	2,019,625.05	2,549,847.25
Prior Period Adjustment, see Note 10			(48,406.00)		(48,406.00)
Net Position - January 1, as Restated			481,816.20	2,019,625.05	2,501,441.25
Net Position - December 31			541,507.80	2,058,070.51	2,599,578.31

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

CITY OF FINLEY
Finley, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2016

	Major Funds				Total Governmental Funds
	General	Sales Tax	Finley Industrial Park	Other Governmental Funds	
ASSETS:					
Cash, Cash Equivalents and Investments	139,748.43	68,576.57	107,026.86	86,134.18	401,486.04
Interfund Receivable	2,410.00				2,410.00
<hr/>					
Total Assets	142,158.43	68,576.57	107,026.86	86,134.18	403,896.04
<hr style="border-top: 1px dashed black;"/>					
LIABILITIES AND FUND BALANCES:					
<u>Liabilities</u>					
Interfund Payable				2,410.00	2,410.00
<hr/>					
<u>Fund Balances</u>					
Restricted for:					
Public Safety				454.47	454.47
Streets and Public Works				85,679.71	85,679.71
Infrastructure Improvements		68,576.57			68,576.57
Debt Service			107,026.86		107,026.86
Unassigned	142,158.43			(2,410.00)	139,748.43
<hr/>					
Total Fund Balances	142,158.43	68,576.57	107,026.86	83,724.18	401,486.04
<hr/>					
Total Liabilities and Fund Balances	142,158.43	68,576.57	107,026.86	86,134.18	403,896.04
<hr style="border-top: 1px dashed black;"/>					

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

CITY OF FINLEY
Finley, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2015

	Major Funds				Total Governmental Funds
	General	Sales Tax	Finley Industrial Park	Other Governmental Funds	
ASSETS:					
Cash, Cash Equivalents and Investments	182,505.75	72,229.53	368,475.27	60,936.72	684,147.27
<hr style="border-top: 1px dashed black;"/>					
FUND BALANCES:					
Restricted for:					
Streets and Public Works				60,936.72	60,936.72
Infrastructure Improvements		72,229.53	360,578.00		432,807.53
Debt Service			7,897.27		7,897.27
Unassigned	182,505.75				182,505.75
<hr style="border-top: 1px solid black;"/>					
Total Fund Balances	182,505.75	72,229.53	368,475.27	60,936.72	684,147.27
<hr style="border-top: 1px dashed black;"/>					

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

CITY OF FINLEY
Finley, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds	401,486.04
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Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	1,241,472.00	
Less Accumulated Depreciation	(310,971.00)	
Net Capital Assets		930,501.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	32,876.00	
Total Deferred Inflows of Resources	(17,502.00)	
Net Deferred Outflows/Inflows of Resources		15,374.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are:

Bank Loans Payable	(101,118.33)	
Special Assessments Bonds Payable	(380,000.00)	
Revenue Bonds Payable	(241,419.75)	
Net Pension Liability	(68,896.00)	
Total Long-Term Liabilities		(791,434.08)

Total Net Position of Governmental Activities	555,926.96
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The accompanying notes are an integral part of these financial statements.

CITY OF FINLEY
Finley, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2015

Total Fund Balances for Governmental Funds		684,147.27
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Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	987,562.00	
Less Accumulated Depreciation	(263,673.00)	
Net Capital Assets		723,889.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	6,106.00	
Total Deferred Inflows of Resources	(8,913.00)	
Net Deferred Outflows/Inflows of Resources		(2,807.00)

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2015 are:

Bank Loans Payable	(136,339.52)	
Special Assessments Bonds Payable	(400,000.00)	
Revenue Bonds Payable	(281,719.95)	
Net Pension Liability	(45,662.00)	
Total Long-Term Liabilities		(863,721.47)

Total Net Position of Governmental Activities		541,507.80
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The accompanying notes are an integral part of these financial statements.

CITY OF FINLEY
Finley, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2016

	Major Funds				Total Governmental Funds
	General	Sales Tax	Finley Industrial Park	Other Governmental Funds	
Revenues:					
Taxes	104,664.64	66,085.70	50,311.60		221,061.94
Licenses, Permits and Fees	21,010.00				21,010.00
Intergovernmental	34,708.57			62,028.50	96,737.07
Charges for Services				15,605.00	15,605.00
Miscellaneous	17,932.40		560.00	4,570.32	23,062.72
Total Revenues	178,315.61	66,085.70	50,871.60	82,203.82	377,476.73
Expenditures:					
Current:					
General Government	112,733.35	6,000.00			118,733.35
Public Safety	27,512.02			2,307.00	29,819.02
Streets and Public Works	71,799.43			48,249.84	120,049.27
Culture and Recreation	6,618.13				6,618.13
Other				8,859.52	8,859.52
Capital Outlay			253,910.00		253,910.00
Debt Service:					
Principal		55,221.19	40,300.20		95,521.39
Interest and Service Charges		8,517.47	18,109.81		26,627.28
Total Expenditures	218,662.93	69,738.66	312,320.01	59,416.36	660,137.96
Net Change in Fund Balances	(40,347.32)	(3,652.96)	(261,448.41)	22,787.46	(282,661.23)
Fund Balance - January 1	182,505.75	72,229.53	368,475.27	60,936.72	684,147.27
Fund Balance - December 31	142,158.43	68,576.57	107,026.86	83,724.18	401,486.04

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

CITY OF FINLEY
Finley, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2015

	Major Funds				Total Governmental Funds
	General	Sales Tax	Finley Industrial Park	Other Governmental Funds	
Revenues:					
Taxes	93,876.05	115,007.63	29,107.49		237,991.17
Licenses, Permits and Fees	2,089.00				2,089.00
Intergovernmental	52,156.33			70,134.95	122,291.28
Charges for Services				17,743.78	17,743.78
Miscellaneous	14,266.92	1,991.54	560.00	4,346.71	21,165.17
Total Revenues	162,388.30	116,999.17	29,667.49	92,225.44	401,280.40
Expenditures:					
Current:					
General Government	92,611.70	7,177.00	21,204.26		120,992.96
Public Safety	19,989.78			469.33	20,459.11
Streets and Public Works	69,672.70	16,575.98	3,519.97	42,036.05	131,804.70
Culture and Recreation	11,119.57				11,119.57
Other				1,147.12	1,147.12
Capital Outlay		29,220.00	33,422.00		62,642.00
Debt Service:					
Principal		50,375.97	19,348.25		69,724.22
Interest and Service Charges		8,187.59	7,451.75		15,639.34
Total Expenditures	193,393.75	111,536.54	84,946.23	43,652.50	433,529.02
Excess (Deficiency) of Revenues Over Expenditures	(31,005.45)	5,462.63	(55,278.74)	48,572.94	(32,248.62)
Other Financing Sources (Uses):					
Proceeds from Bank Loan		19,000.00			19,000.00
Special Assessment Bonds Issued			400,000.00		400,000.00
Discount on Bonds Issued			(6,000.00)		(6,000.00)
Total Other Financing Sources (Uses)		19,000.00	394,000.00		413,000.00
Net Change in Fund Balances	(31,005.45)	24,462.63	338,721.26	48,572.94	380,751.38
Fund Balance - January 1	213,511.20	47,766.90	29,754.01	12,363.78	303,395.89
Fund Balance - December 31	182,505.75	72,229.53	368,475.27	60,936.72	684,147.27

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

CITY OF FINLEY
Finley, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds (282,661.23)

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

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

Current Year Capital Outlay	253,910.00	
Current Year Depreciation Expense	(47,298.00)	206,612.00

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	0.00	
Repayment of Debt	95,521.39	95,521.39

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase to Pension Expense		(5,053.00)

Change in Net Position of Governmental Activities		14,419.16

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

CITY OF FINLEY
Finley, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds 380,751.38

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

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

Current Year Capital Outlay	62,642.00	
Current Year Depreciation Expense	(37,718.00)	24,924.00

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded repayment of debt.

Debt Proceeds	(419,000.00)	
Repayment of Debt	69,724.22	(349,275.78)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase to Pension Expense		(63.00)
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In the statement of activities, only the gain on the trade-in of capital assets is reported, whereas in the governmental funds, the result of this transaction has no effect on financial resources. Thus, the net effect on financial resources, (i.e., sales, trade-ins) is to increase net position.

3,355.00

Change in Net Position of Governmental Activities		59,691.60
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The accompanying notes are an integral part of these financial statements.

CITY OF FINLEY
Finley, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2016

	Major Enterprise Funds				Total Enterprise Funds
	Enterprise Operating	Water Main Repl. 2001-1	Sewer Rehab. 2009	Water Tower	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	106,805.13	387,727.14	123,214.87	29,011.15	646,758.29
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Construction in Progress				1,055,763.00	1,055,763.00
Buildings and Infrastructure	145,550.00	1,599,000.00	1,316,904.00		3,061,454.00
Machinery and Vehicles	5,100.00				5,100.00
Total Noncurrent Assets	150,650.00	1,599,000.00	1,316,904.00	1,055,763.00	4,122,317.00
Total Assets	257,455.13	1,986,727.14	1,440,118.87	1,084,774.15	4,769,075.29
LIABILITIES					
Current Liabilities:					
Rural Water Loan Payable	2,236.10				2,236.10
Special Assessment Bonds Payable			23,645.00		23,645.00
Revenue Bonds Payable		136,400.00		10,318.00	146,718.00
Total Current Liabilities	2,236.10	136,400.00	23,645.00	10,318.00	172,599.10
Noncurrent Liabilities:					
Rural Water Loan Payable	11,151.27				11,151.27
Special Assessment Bonds Payable			790,268.00		790,268.00
Revenue Bonds Payable		595,200.00		647,682.00	1,242,882.00
Total Noncurrent Liabilities	11,151.27	595,200.00	790,268.00	647,682.00	2,044,301.27
Total Liabilities	13,387.37	731,600.00	813,913.00	658,000.00	2,216,900.37
NET POSITION					
Net Investment in Capital Assets	137,262.63	867,400.00	502,991.00	397,763.00	1,905,416.63
Restricted for:					
Debt Service		387,727.14	123,214.87	21,005.86	531,947.87
Unrestricted	106,805.13			8,005.29	114,810.42
Total Net Position	244,067.76	1,255,127.14	626,205.87	426,774.15	2,552,174.92

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

CITY OF FINLEY
Finley, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2015

	Major Enterprise Funds				Total Enterprise Funds
	Enterprise Operating	Water Main Repl. 2001-1	Sewer Rehab. 2009	Water Tower	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	93,700.73	401,164.30	108,247.29	398,311.65	1,001,423.97
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Construction in Progress				175,223.00	175,223.00
Buildings and Infrastructure	152,500.00	1,665,625.00	1,371,775.00		3,189,900.00
Machinery and Vehicles	5,950.00				5,950.00
Total Noncurrent Assets	158,450.00	1,665,625.00	1,371,775.00	175,223.00	3,371,073.00
Total Assets	252,150.73	2,066,789.30	1,480,022.29	573,534.65	4,372,496.97
LIABILITIES					
Current Liabilities:					
Rural Water Loan Payable	2,170.09				2,170.09
Special Assessment Bonds Payable			22,956.00		22,956.00
Revenue Bonds Payable		136,400.00		594,000.00	730,400.00
Total Current Liabilities	2,170.09	136,400.00	22,956.00	594,000.00	755,526.09
Noncurrent Liabilities:					
Rural Water Loan Payable	13,387.37				13,387.37
Special Assessment Bonds Payable			813,913.00		813,913.00
Revenue Bonds Payable		731,600.00			731,600.00
Total Noncurrent Liabilities	13,387.37	731,600.00	813,913.00		1,558,900.37
Total Liabilities	15,557.46	868,000.00	836,869.00	594,000.00	2,314,426.46
NET POSITION					
Net Investment in Capital Assets	142,892.54	797,625.00	534,906.00	(20,465.35)	1,454,958.19
Restricted for:					
Debt Service		401,164.30	108,247.29		509,411.59
Unrestricted	93,700.73				93,700.73
Total Net Position	236,593.27	1,198,789.30	643,153.29	(20,465.35)	2,058,070.51

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

CITY OF FINLEY
Finley, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Major Enterprise Funds				
	Enterprise Operating	Water Main Repl. 2001-1	Sewer Rehabilitation 2009	Water Tower	Total Enterprise Funds
<u>Operating Revenues:</u>					
<u>Charges for Sales and Services:</u>					
Water, Sewer and Garbage Charges	120,614.91				120,614.91
Surcharges		45,436.07	63,072.68	21,005.86	129,514.61
Other Revenues	2,802.95				2,802.95
Total Operating Revenues	123,417.86	45,436.07	63,072.68	21,005.86	252,932.47
<u>Operating Expenses:</u>					
Sewer Repairs	750.00				750.00
Chemicals	872.00				872.00
Maintenance and Repairs	8,592.77				8,592.77
Rural Water Contract	56,117.63				56,117.63
Garbage Contract	33,465.50				33,465.50
Miscellaneous	7,908.44				7,908.44
Depreciation	7,800.00	66,625.00	54,871.00		129,296.00
Total Operating Expenses	115,506.34	66,625.00	54,871.00		237,002.34
Operating Income (Loss)	7,911.52	(21,188.93)	8,201.68	21,005.86	15,930.13
<u>Non-Operating Revenues (Expenses):</u>					
Special Assessments		100,812.68			100,812.68
City Special Assessments		2,413.09			2,413.09
USDA Grant				447,161.03	447,161.03
Other Expenses			(43.10)	(14,511.07)	(14,554.17)
Debt Service - Interest	(437.03)	(21,700.00)	(25,106.00)	(5,759.32)	(53,002.35)
Debt Service - Service Charge		(3,999.00)		(657.00)	(4,656.00)
Total Non-Operating Revenues (Expenses)	(437.03)	77,526.77	(25,149.10)	426,233.64	478,174.28
Change in Net Position	7,474.49	56,337.84	(16,947.42)	447,239.50	494,104.41
Net Position - January 1	236,593.27	1,198,789.30	643,153.29	(20,465.35)	2,058,070.51
Net Position - December 31	244,067.76	1,255,127.14	626,205.87	426,774.15	2,552,174.92

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

CITY OF FINLEY
Finley, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2015

	Major Enterprise Funds				Total Enterprise Funds
	Enterprise Operating	Water Main Repl. 2001-1	Sewer Rehabilitation 2009	Water Tower	
<u>Operating Revenues:</u>					
<u>Charges for Sales and Services:</u>					
Water, Sewer and Garbage Charges	112,030.13				112,030.13
Surcharges		45,108.96	63,867.92		108,976.88
Other Revenues	2,874.99				2,874.99
Total Operating Revenues	114,905.12	45,108.96	63,867.92		223,882.00
<u>Operating Expenses:</u>					
Sewer Repairs	650.00				650.00
Chemicals	661.56				661.56
Maintenance and Repairs	14,509.58				14,509.58
Rural Water Contract	53,420.09				53,420.09
Garbage Contract	33,269.65				33,269.65
Miscellaneous	7,794.43				7,794.43
Depreciation	7,800.00	66,625.00	54,871.00		129,296.00
Total Operating Expenses	118,105.31	66,625.00	54,871.00		239,601.31
Operating Income (Loss)	(3,200.19)	(21,516.04)	8,996.92		(15,719.31)
<u>Non-Operating Revenues (Expenses):</u>					
Interest Income		716.15			716.15
Special Assessments		127,544.79			127,544.79
City Special Assessments		2,472.81			2,472.81
Other Expenses			(21.55)	(14,525.35)	(14,546.90)
Discount on Bonds Issued				(5,940.00)	(5,940.00)
Debt Service - Interest	(501.08)	(25,110.00)	(25,775.00)		(51,386.08)
Debt Service - Service Charge		(4,696.00)			(4,696.00)
Total Non-Operating Revenues (Expenses)	(501.08)	100,927.75	(25,796.55)	(20,465.35)	54,164.77
Change in Net Position	(3,701.27)	79,411.71	(16,799.63)	(20,465.35)	38,445.46
Net Position - January 1	240,294.54	1,119,377.59	659,952.92		2,019,625.05
Net Position - December 31	236,593.27	1,198,789.30	643,153.29	(20,465.35)	2,058,070.51

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

CITY OF FINLEY
Finley, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

Major Enterprise Funds

	Enterprise Operating	Water Main Repl. 2001-1	Sewer Rehabilitation 2009	Water Tower	Total Enterprise Funds
Cash flows from operating activities:					
Receipts from customers	123,417.86	45,436.07	63,072.68	21,005.86	252,932.47
Payments to suppliers and employees	(107,706.34)				(107,706.34)
Net cash provided (used) by operating activities	15,711.52	45,436.07	63,072.68	21,005.86	145,226.13
Cash flows from noncapital financing activities:					
City special assessments		2,413.09			2,413.09
Miscellaneous disbursements			(43.10)	(14,511.07)	(14,554.17)
Net cash provided (uses) by noncapital financing activities		2,413.09	(43.10)	(14,511.07)	(12,141.08)
Cash flows from capital and related financing activities:					
Special assessments		100,812.68			100,812.68
Revenue bonds issued				658,000.00	658,000.00
USDA grant				447,161.03	447,161.03
Water tower project				(880,540.00)	(880,540.00)
Principal payments	(2,170.09)	(136,400.00)	(22,956.00)	(594,000.00)	(755,526.09)
Interest payments	(437.03)	(21,700.00)	(25,106.00)	(5,759.32)	(53,002.35)
Service charges		(3,999.00)		(657.00)	(4,656.00)
Net cash provided (used) by capital and related financing activities	(2,607.12)	(61,286.32)	(48,062.00)	(375,795.29)	(487,750.73)
Net increase in cash and cash equivalents	13,104.40	(13,437.16)	14,967.58	(369,300.50)	(354,665.68)
Cash and cash equivalents, January 1	93,700.73	401,164.30	108,247.29	398,311.65	1,001,423.97
Cash and cash equivalents, December 31	106,805.13	387,727.14	123,214.87	29,011.15	646,758.29
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	7,911.52	(21,188.93)	8,201.68	21,005.86	15,930.13
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	7,800.00	66,625.00	54,871.00		129,296.00
Net cash provided (used) by operating activities	15,711.52	45,436.07	63,072.68	21,005.86	145,226.13

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

CITY OF FINLEY
Finley, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2015

Major Enterprise Funds

	Enterprise Operating	Water Main Repl. 2001-1	Sewer Rehabilitation 2009	Water Tower	Total Enterprise Funds
<u>Cash flows from operating activities:</u>					
Receipts from customers	114,905.12	45,108.96	63,867.92		223,882.00
Payments to suppliers and employees	(110,305.31)				(110,305.31)
Net cash provided (used) by operating activities	4,599.81	45,108.96	63,867.92		113,576.69
<u>Cash flows from noncapital financing activities:</u>					
City special assessments		2,472.81			2,472.81
Miscellaneous disbursements			(21.55)	(14,525.35)	(14,546.90)
Net cash provided (used) by noncapital financing activities		2,472.81	(21.55)	(14,525.35)	(12,074.09)
<u>Cash flows from capital and related financing activities:</u>					
Special assessments		127,544.79			127,544.79
Revenue bonds issued				594,000.00	594,000.00
Discount on bonds issued				(5,940.00)	(5,940.00)
Water tower project				(175,223.00)	(175,223.00)
Principal payments	(2,106.04)	(136,400.00)	(22,287.00)		(160,793.04)
Interest payments	(501.08)	(25,110.00)	(25,775.00)		(51,386.08)
Service charges		(4,696.00)			(4,696.00)
Net cash provided (used) by capital and related financing activities	(2,607.12)	(38,661.21)	(48,062.00)	412,837.00	323,506.67
<u>Cash flows from investing activities:</u>					
Interest income		716.15			716.15
Net increase in cash and cash equivalents	1,992.69	9,636.71	15,784.37	398,311.65	425,725.42
Cash and cash equivalents, January 1	91,708.04	391,527.59	92,462.92	-0-	575,698.55
Cash and cash equivalents, December 31	93,700.73	401,164.30	108,247.29	398,311.65	1,001,423.97
=====					
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>					
Operating income (loss)	(3,200.19)	(21,516.04)	8,996.92		(15,719.31)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	7,800.00	66,625.00	54,871.00		129,296.00
Net cash provided (used) by operating activities	4,599.81	45,108.96	63,867.92		113,576.69
=====					

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

CITY OF FINLEY
Finley, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Agency Fund
December 31, 2016

	Agency Fund
<u>Assets:</u>	
Cash and Investments	21,149.96 =====
<u>Liabilities:</u>	
Due to Other Governments	21,149.96 =====

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

CITY OF FINLEY
Finley, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Agency Fund
December 31, 2015

	Agency Fund
<u>Assets:</u>	
Cash and Investments	12,839.97
	=====
<u>Liabilities:</u>	
Due to Other Governments	12,839.97
	=====

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

CITY OF FINLEY
Finley, North Dakota

Notes to the Financial Statements
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the city.

Based on these criteria, there are no component units to be included within the City of Finley as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of Finley. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements: The fund financial statements provide information about the city's funds including its fiduciary funds. Separate statements for each fund category - *governmental, proprietary* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

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

Sales Tax. This fund accounts for the city's share of sales tax to be used for infrastructure improvements and/or debt service payments.

Finley Industrial Park. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Tax Increment Revenue Bonds of 2000/2001 and the Refunding Improvement Bonds of 2015.

The city reports the following major enterprise funds:

Enterprise Operating. This fund accounts for the activities of the city's water distribution, garbage collection and sewer collection systems.

Water Main Replacement 2001-1. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Water Treatment Improvement Bonds of 2001.

Sewer Rehabilitation 2009. This fund accounts for resources to be used for sewer improvements and the accumulation of resources to be used for the payment of long-term debt principal and interest related to the USDA Sanitary Sewer Rehabilitation Bonds of 2009.

Water Tower. This fund accounts for resources used for a water tower project and the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Revenue Bonds of 2016.

The city reports the following fund type:

Agency Funds. These funds account for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency funds are used to account for various deposits of other governments.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents includes amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Infrastructure	30 to 40 years
Machinery and Vehicles	10 to 20 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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

H. Pension

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

I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- * Committed
- * Assigned
- * Unassigned

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

J. Interfund Transactions

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

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

In the government-wide financial statements, interfund transactions have been eliminated.

K. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2016 the city's carrying amount of deposits was \$1,069,394 and the bank balance was \$1,054,260. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$804,260 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2015 the city's carrying amount of deposits was \$1,698,441 and the bank balance was \$1,675,187. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$1,425,187 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The city may invest idle funds as authorized in North Dakota Statutes, as follows:

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

At December 31, 2016 the city held certificates of deposit in the amount of \$234,906, which are all considered deposits.

At December 31, 2015 the city held certificates of deposit in the amount of \$234,323, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLE/PAYABLE

Interfund receivable/payable is created by a negative cash balance in the CDBG Grant fund. The amount shown as interfund payable represents the amount of negative cash in this fund. Interfund receivable/payable for the year ended December 31, 2016 is as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General	2,410.00	
CDBG Grant		2,410.00

Note 5 CAPITAL ASSETS

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

	<u>2016</u>			
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	105,000			105,000
Construction in Progress	33,422		33,422	
Total	<u>138,422</u>		<u>33,422</u>	<u>105,000</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	404,605	287,332		691,937
Machinery and Vehicles	444,535			444,535
Total	<u>849,140</u>	<u>287,332</u>		<u>1,136,472</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	157,460	23,065		180,525
Machinery and Vehicles	106,213	24,233		130,446
Total	<u>263,673</u>	<u>47,298</u>		<u>310,971</u>
Total capital assets being depreciated, net	<u>585,467</u>	<u>240,034</u>		<u>825,501</u>
Governmental Activities Capital Assets, Net	<u>723,889</u>	<u>240,034</u>	<u>33,422</u>	<u>930,501</u>

	<u>2015</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	105,000			105,000
Construction in Progress		33,422		33,422
Total	<u>105,000</u>	<u>33,422</u>		<u>138,422</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	404,605			404,605
Machinery and Vehicles	427,465	39,220	22,150	444,535
Total	<u>832,070</u>	<u>39,220</u>	<u>22,150</u>	<u>849,140</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	143,974	13,486		157,460
Machinery and Vehicles	97,486	24,232	15,505	106,213
Total	<u>241,460</u>	<u>37,718</u>	<u>15,505</u>	<u>263,673</u>
Total capital assets being depreciated, net	<u>590,610</u>	<u>1,502</u>	<u>6,645</u>	<u>585,467</u>
Governmental Activities Capital Assets, Net	<u>695,610</u>	<u>34,924</u>	<u>6,645</u>	<u>723,889</u>

	<u>2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in Progress	175,223	880,540		1,055,763
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	4,589,130			4,589,130
Machinery and Vehicles	17,000			17,000
Total	<u>4,606,130</u>			<u>4,606,130</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,399,230	128,446		1,527,676
Machinery and Vehicles	11,050	850		11,900
Total	<u>1,410,280</u>	<u>129,296</u>		<u>1,539,576</u>
Total capital assets being depreciated, net	<u>3,195,850</u>	<u>(129,296)</u>		<u>3,066,554</u>
Business-type Activities Capital Assets, Net	<u>3,371,073</u>	<u>751,244</u>	<u>-0-</u>	<u>4,122,317</u>

2015

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in Progress		175,223		175,22
<hr/>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	4,589,130			4,589,130
Machinery and Vehicles	17,000			17,000
<hr/>				
Total	4,606,130			4,606,130
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,270,784	128,446		1,399,230
Machinery and Vehicles	10,200	850		11,050
<hr/>				
Total	1,280,984	129,296		1,410,280
<hr/>				
Total capital assets being depreciated, net	3,325,146	(129,296)		3,195,850
<hr/>				
Business-type Activities				
Capital Assets, Net	3,325,146	45,927	-0-	3,371,073
<hr/>				

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
<u>Governmental Activities:</u>		
Streets and Public Works	47,298	37,718
<hr/>		
<u>Business-type Activities:</u>		
Enterprise Operating	7,800	7,800
Water Main Replacement	66,625	66,625
Sewer Rehabilitation	54,871	54,871
<hr/>		
Total	129,296	129,296
<hr/>		

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2016 and 2015, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities

	<u>2016</u>			<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Bank Loans	136,340		35,222	101,118	37,139
Special Assessment Bonds	400,000		20,000	380,000	20,000
Revenue Bonds	281,720		40,300	241,420	46,330
Total	818,060	-0-	95,522	722,538	103,469

	<u>2015</u>			<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Bank Loans	147,715		11,375	136,340	35,221
Special Assessment Bonds		400,000		400,000	20,000
Revenue Bonds	321,068		39,348	281,720	40,300
Total	468,783	400,000	50,723	818,060	95,521

Business-type Activities

	<u>2016</u>			<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Rural Water Loan	15,557		2,170	13,387	2,236
Special Assessment Bonds	836,869		22,956	813,913	23,645
Revenue Bonds	1,462,000		72,400	1,389,600	146,718
Total	2,314,426	-0-	97,526	2,216,900	172,599

	<u>2015</u>			<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Rural Water Loan	17,664		2,107	15,557	2,170
Special Assessment Bonds	859,156		22,287	836,869	22,956
Revenue Bonds	1,004,400	594,000	136,400	1,462,000	730,400
Total	1,881,220	594,000	160,794	2,314,426	755,526

Outstanding debt at December 31, 2016 consists of the following:

Governmental Activities

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2016, is as follows:

Bank Loans Payable. The city has entered into loan agreements to provide funds for the purchase of a street sweeper and a pickup. Bank loans payable at December 31, 2016 are as follows:

\$157,215.00 Loan Payable with Citizens State Bank, due in monthly installments of \$2,866.72 through July 1, 2019 and a final installment of \$2,143.87 on August 1, 2019; payments include interest at 3.5%.	87,382.96
\$19,000.00 Loan Payable with Citizens State Bank, due in monthly installments of \$425.21 through October 15, 2019; payments include interest at 3.5%.	13,735.37
Total	<u>101,118.33</u> =====

The annual requirements to amortize the outstanding loans payable are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	37,139.36	2,358.40
2018	37,862.92	1,634.84
2019	26,116.05	348.03
Total	<u>101,118.33</u> =====	<u>4,341.27</u> =====

Special Assessment Bonds. The city has issued special assessment bonds to provide funds for the construction and/or improvements at the Finley Industrial Park. Special assessment bonds outstanding at December 31, 2016 are as follows:

\$400,000.00 Refunding Improvement Bonds of 2015, due in annual installments of \$20,000.00 to \$30,000.00 through May 1, 2030; interest is at 2.25% to 3%.	380,000.00
	=====

The annual requirements to amortize the outstanding special assessment bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	20,000.00	9,900.00
2018	25,000.00	9,393.75
2019	25,000.00	8,831.25
2020	25,000.00	8,268.75
2021	25,000.00	7,706.25
2022-2026	140,000.00	28,575.00
2027-2030	120,000.00	7,200.00
Total	<u>380,000.00</u> =====	<u>79,875.00</u> =====

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016, are as follows:

\$250,015.00 Tax Increment Revenue Bonds of 2001/2002; due in annual installments of \$25,900.00 through December 1, 2019 and a final payment of \$25,388.46 on December 1, 2020; payments include interest at 5%.	91,419.75
\$230,000.00 Sales Tax Revenue Bonds of 2012; due in annual installments of \$25,000.00 through December 1, 2022; interest is at 1.25% to 2%.	150,000.00
Total	<u>241,419.75</u> =====

The annual requirements to amortize the outstanding revenue bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	46,330.20	7,382.30
2018	47,396.00	6,004.00
2019	48,516.55	4,383.45
2020	49,177.00	2,711.46
2021	25,000.00	750.00
2022	25,000.00	250.00
Total	<u>241,419.75</u> =====	<u>21,481.21</u> =====

Business-type Activities

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2016, is as follows:

Rural Water Loan Payable. The city has entered into a loan agreement to provide funds for repairs to the city's water tower. Loan payable at December 31, 2016 is as follows:

\$22,500.00 Loan Payable, due in monthly installments of \$217.26 through July 15, 2022; payments include interest at 3%.	13,387.37
	=====

The annual requirements to amortize the outstanding loan payable are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	2,236.10	371.02
2018	2,304.11	303.01
2019	2,374.20	232.92
2020	2,446.41	160.71
2021	2,520.81	86.31
2022	1,505.74	15.09
Total	<u>13,387.37</u> =====	<u>1,169.06</u> =====

Special Assessment Bonds. The city has issued special assessment bonds to provide funds for the construction and/or improvement of the city's sewer system. Special assessment bonds outstanding at December 31, 2016 are as follows:

\$752,000.00 USDA Sanitary Sewer Rehabilitation Bonds of 2009, due in annual installments of \$38,368 through October 26, 2039 and a final installment of \$38,296 on October 26, 2040; payments include interest at 4.5%.	649,747.00
\$190,000.00 USDA Sanitary Sewer Rehabilitation Bonds of 2009, due in annual installments of \$9,694 through October 26, 2039 and a final installment of \$9,687 on October 26, 2040; payments include interest at 4.5%.	164,166.00
Total	813,913.00 =====

The annual requirements to amortize the outstanding special assessment debt are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	23,645.00	24,417.00
2018	24,354.00	23,708.00
2019	25,084.00	22,978.00
2020	25,837.00	22,225.00
2021	26,612.00	21,449.00
2022-2026	145,524.00	98,070.00
2027-2031	168,702.00	73,872.00
2032-2036	195,574.00	44,736.00
2037-2040	178,581.00	13,587.00
Total	813,913.00 =====	345,042.00 =====

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 are as follows:

\$2,479,994.00 Water Treatment Improvement Bonds of 2001, due in annual installments of \$136,400.00 to \$148,800.00 through September 1, 2021; interest is at 2.5%.	731,600.00
\$658,000.00 Revenue Bonds of 2016, due in annual 2001, due in annual installments of 25,122.00 through September 15, 2056; interest is at 2.25%.	658,000.00
Total	1,389,600.00 =====

The annual requirements to amortize the outstanding revenue bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	146,718.00	33,095.00
2018	159,349.00	29,452.84
2019	159,587.00	25,495.48
2020	159,830.00	21,532.78
2021	160,078.00	17,564.61
2022-2026	60,313.00	65,300.52
2027-2031	67,409.00	58,203.06
2032-2036	75,343.00	50,270.55
2037-2041	84,207.00	41,404.41
2042-2046	94,116.00	31,495.12
2047-2051	105,192.00	20,419.74
2052-2056	117,458.00	8,040.99
Total	<u>1,389,600.00</u>	<u>402,275.10</u>
	=====	=====

Note 7 DEFICIT FUND BALANCE

As of December 31, 2016, the following fund had a deficit balance:

<u>Special Revenue Fund</u>	
CDBG Grant	(2,410.00)

The city plans to eliminate this deficit with future revenue collections and/or transfers from other funds.

Note 8 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$354,655 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$274,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 9 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At December 31, 2016, the City of Finley reported a liability of \$68,896 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015 the city's proportion was .010132 percent, which was an increase of .002938 from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016 the city recognized pension expense of \$4,518. At December 31, 2016 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources -----	Deferred Inflows of Resources -----
Differences between expected and actual experience	1,999	
Changes in assumptions		6,138
Net difference between projected and actual earnings on pension plan investments	7,961	9,415
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,058	1,949
City contributions subsequent to the measurement date (see below)	4,858	
Total	----- 32,876 -----	----- 17,502 -----

\$4,858 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30: -----	
2017	1,370
2018	1,370
2019	1,370
2020	4,375
2021	2,025
Thereafter	0

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

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

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

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

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

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

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

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

Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate. The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
	-----	-----	-----
The city's proportionate share of the net pension liability	105,648	68,896	38,826

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

Note 10 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Governmental Activities. This adjustment was made to account for the city's net pension liability less it's deferred outflows of resources at December 31, 2014.

CITY OF FINLEY
Finley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	103,491.31	103,491.31	104,664.64	1,173.33
Licenses, Permits and Fees	4,400.00	4,400.00	21,010.00	16,610.00
Intergovernmental	21,400.00	21,400.00	34,708.57	13,308.57
Miscellaneous	20,750.00	20,750.00	17,932.40	(2,817.60)
Total Revenues	150,041.31	150,041.31	178,315.61	28,274.30
<u>Expenditures:</u>				
Current:				
General Government	147,252.68	147,252.68	112,733.35	34,519.33
Public Safety	44,200.00	44,200.00	27,512.02	16,687.98
Streets and Public Works	50,000.00	50,000.00	71,799.43	(21,799.43)
Culture and Recreation	10,000.00	10,000.00	6,618.13	3,381.87
Total Expenditures	251,452.68	251,452.68	218,662.93	32,789.75
Net Change in Fund Balances	(101,411.37)	(101,411.37)	(40,347.32)	61,064.05
Fund Balance - January 1	182,505.75	182,505.75	182,505.75	
Fund Balance - December 31	81,094.38	81,094.38	142,158.43	61,064.05

CITY OF FINLEY
Finley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	89,240.00	89,240.00	93,876.05	4,636.05
Licenses, Permits and Fees	4,400.00	4,400.00	2,089.00	(2,311.00)
Intergovernmental	21,400.00	21,400.00	52,156.33	30,756.33
Miscellaneous	20,550.00	20,550.00	14,266.92	(6,283.08)
Total Revenues	135,590.00	135,590.00	162,388.30	26,798.30
<u>Expenditures:</u>				
Current:				
General Government	149,157.31	149,157.31	92,611.70	56,545.61
Public Safety	28,800.00	28,800.00	19,989.78	8,810.22
Streets and Public Works	50,000.00	50,000.00	69,672.70	(19,672.70)
Culture and Recreation	3,500.00	3,500.00	11,119.57	(7,619.57)
Total Expenditures	231,457.31	231,457.31	193,393.75	38,063.56
Net Change in Fund Balances	(95,867.31)	(95,867.31)	(31,005.45)	64,861.86
Fund Balance - January 1	213,511.20	213,511.20	213,511.20	
Fund Balance - December 31	117,643.89	117,643.89	182,505.75	64,861.86

CITY OF FINLEY
Finley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales Tax Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	100,000.00	100,000.00	66,085.70	(33,914.30)
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	67,181.00	67,181.00	6,000.00	61,181.00
<u>Debt Service:</u>				
Principal	20,000.00	20,000.00	55,221.19	(35,221.19)
Interest and Service Charges	3,562.50	3,562.50	8,517.47	(4,954.97)
Total Expenditures	90,743.50	90,743.50	69,738.66	21,004.84
Net Change in Fund Balances	9,256.50	9,256.50	(3,652.96)	(12,909.46)
Fund Balance - January 1	72,229.53	72,229.53	72,229.53	
Fund Balance - December 31	81,486.03	81,486.03	68,576.57	(12,909.46)

CITY OF FINLEY
Finley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales Tax Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	58,000.00	58,000.00	115,007.63	57,007.63
Miscellaneous			1,991.54	1,991.54
Total Revenues	58,000.00	58,000.00	116,999.17	58,999.17
<u>Expenditures:</u>				
Current:				
General Government	6,000.00	6,000.00	7,177.00	(1,177.00)
Streets and Public Works	28,700.00	28,700.00	16,575.98	12,124.02
Capital Outlay	34,400.64	34,400.64	29,220.00	5,180.64
Debt Service:				
Principal	20,000.00	20,000.00	50,375.97	(30,375.97)
Interest and Service Charges	3,562.50	3,562.50	8,187.59	(4,625.09)
Total Expenditures	92,663.14	92,663.14	111,536.54	(18,873.40)
Excess (Deficiency) of Revenues Over Expenditures	(34,663.14)	(34,663.14)	5,462.63	40,125.77
<u>Other Financing Sources:</u>				
Proceeds from Bank Loan			19,000.00	19,000.00
Net Change in Fund Balances	(34,663.14)	(34,663.14)	24,462.63	59,125.77
Fund Balance - January 1	47,766.90	47,766.90	47,766.90	
Fund Balance - December 31	13,103.76	13,103.76	72,229.53	59,125.77

CITY OF FINLEY
Finley, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general, special revenue and debt service funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budgets during the years ended December 31, 2016 and 2015.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2016 and 2015:

	2016	2015
<u>Special Revenue Funds</u>		
Sales Tax		18,873.40
* Ambulance	2,307.00	469.33
Air Base	1,449.52	
# CDBG Grant	2,410.00	
 <u>Debt Service Fund</u>		
Finley Industrial Park	281,070.01	57,946.23

* A budget was not prepared for this fund for the year ending December 31, 2016 and 2015.

A budget was not prepared for this fund for the year ending December 31, 2016.

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

CITY OF FINLEY
Finley, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015 -----	2016 -----
City's proportion of the net pension liability	0.007194%	0.010132%
City's proportionate share of the net pension liability	45,662	68,896
City's covered-employee payroll	60,605	63,427
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.34%	108.62%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015 -----	2016 -----
Statutorily required contribution	4,018	4,516
Contributions in relation to the statutorily required contribution	(4,018)	(4,516)
Contribution deficiency (excess)	0	0
City's covered-employee payroll	60,605	63,427
Contributions as a percentage of covered-employee payroll	6.63%	7.12%

* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 9 to the financial statements.

CITY OF FINLEY
Finley, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
<u>Major Governmental Funds</u>						
General Fund	182,505.75	178,315.61			218,662.93	142,158.43
Sales Tax	72,229.53	66,085.70			69,738.66	68,576.57
Finley Industrial Park	368,475.27	50,871.60			312,320.01	107,026.86
Total Major Governmental Funds	623,210.55	295,272.91			600,721.60	317,761.86
<u>Non-Major Governmental Funds</u>						
Highway Distribution	41,955.97	62,837.35			48,249.84	56,543.48
Ambulance		2,761.47			2,307.00	454.47
Air Base	18,980.75	16,605.00			6,449.52	29,136.23
CDBG Grant					2,410.00	(2,410.00)
Total Non-Major Governmental Funds	60,936.72	82,203.82			59,416.36	83,724.18
Total Governmental Funds	684,147.27	377,476.73			660,137.96	401,486.04
<u>Major Enterprise Funds</u>						
Enterprise Operating	93,700.73	123,417.86			110,313.46	106,805.13
Water Main Replacement 2001-1	401,164.30	148,661.84			162,099.00	387,727.14
Sewer Rehabilitation 2009	108,247.29	63,072.68			48,105.10	123,214.87
Water Tower	398,311.65	1,126,166.89			1,495,467.39	29,011.15
Total Enterprise Funds	1,001,423.97	1,461,319.27			1,815,984.95	646,758.29
<u>Fiduciary Fund</u>						
<u>Agency Fund</u>						
City Sales Tax	12,839.97	115,558.11			107,248.12	21,149.96
Total All Funds	1,698,411.21	1,954,354.11			2,583,371.03	1,069,394.29

CITY OF FINLEY
Finley, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
<u>Major Governmental Funds</u>						
General Fund	213,511.20	162,388.30			193,393.75	182,505.75
Sales Tax	47,766.90	135,999.17			111,536.54	72,229.53
Finley Industrial Park	29,754.01	423,667.49			84,946.23	368,475.27
Total Major Governmental Funds	291,032.11	722,054.96			389,876.52	623,210.55
<u>Non-Major Governmental Funds</u>						
Highway Distribution	10,835.36	73,156.66			42,036.05	41,955.97
Ambulance	144.33	325.00			469.33	
Air Base	1,384.09	18,743.78			1,147.12	18,980.75
Total Non-Major Governmental Funds	12,363.78	92,225.44			43,652.50	60,936.72
Total Governmental Funds	303,395.89	814,280.40			433,529.02	684,147.27
<u>Major Enterprise Funds</u>						
Enterprise Operating	91,708.04	114,905.12			112,912.43	93,700.73
Water Main Replacement 2001-1	391,527.59	175,842.71			166,206.00	401,164.30
Sewer Rehabilitation 2009	92,462.92	63,867.92			48,083.55	108,247.29
Water Tower		588,060.00			189,748.35	398,311.65
Total Enterprise Funds	575,698.55	942,675.75			516,950.33	1,001,423.97
<u>Fiduciary Fund</u>						
<u>Agency Funds</u>						
City Sales Tax		164,296.60			151,456.63	12,839.97
CDLF Account	0.13				0.13	
Total Fiduciary Fund	0.13	164,296.60			151,456.76	12,839.97
Total All Funds	879,094.57	1,921,252.75			1,101,936.11	1,698,411.21

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Finley
Finley, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Finley, Finley, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated October 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the city's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of 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 audits, 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 Findings

The city's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. 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 city's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

October 6, 2017

CITY OF FINLEY
Finley, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Noncompliance Material to financial
statements noted? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2016 and 2015 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.