

AUDIT REPORT

CITY OF NEW ENGLAND
New England, North Dakota

For the Years Ended December 31, 2016 and 2015

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF NEW ENGLAND
New England, North Dakota

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CITY OF NEW ENGLAND
New England, North Dakota

CITY OFFICIALS

Marty Opdahl	Mayor
Chris Fitterer	Council Member
Butch Frank	Council Member
Tom Gorek	Council Member
Lyle Kovar	Council Member
Frank Schmidt	Council Member
Shelly Wolf	Council Member
Jason Jung	Auditor

Rath & Mehler, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of New England
New England, 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 New England, New England, 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 New England, New England, 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 schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability, schedule of fund activity arising from cash transactions and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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, schedule of fund activity arising from cash transactions and the schedule of expenditures of federal awards 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 September 15, 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

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 15, 2017

CITY OF NEW ENGLAND

Management's Discussion and Analysis

December 31, 2016 and 2015

The Management's Discussion and Analysis (MD&A) of the City of New England'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 \$271,784 as a result of the current year's operations. Net position of the governmental activities decreased \$511,218 and net position of the business-type activities increased \$783,002.
- * Governmental net position totaled \$595,356 and business-type net position totaled \$2,365,377.
- * Total revenues from all sources were \$493,112 for governmental activities and \$807,009 for business-type activities.
- * Total expenses were \$704,400 for governmental activities and \$323,938 for business-type activities.
- * The city's general fund had \$147,063 in total revenues and \$182,465 in total expenditures. Overall, the general fund balance decreased by \$35,402 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 \$1,638,659 as a result of the current year's operations. Net position of the governmental activities increased \$254,281 and net position of the business-type activities increased \$1,384,377.
- * Governmental net position totaled \$1,106,575 and business-type net position totaled \$1,582,375.
- * Total revenues from all sources were \$770,143 for governmental activities and \$1,628,331 for business-type activities.
- * Total expenses were \$498,862 for governmental activities and \$260,953 for business-type activities.
- * The city's general fund had \$129,645 in total revenues and \$190,173 in total expenditures. Overall, the general fund balance decreased by \$60,528 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 funds 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, and culture and recreation. 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, highway tax fund, city sales tax fund and development fund are considered "major governmental funds". The city's utility fund and garbage truck reserve 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 \$271,784 and \$1,638,659 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 \$2,960,733 is segregated into three separate categories. Net investment in capital assets totals \$2,441,041. It should be noted that these assets are not available for future spending. The restricted component of net position is \$480,389 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 \$39,303 which includes (\$97,796) 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 \$137,099 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	262,370	355,117
Capital Assets (net of accumulated depreciation)	824,117	7,482,904
Total Assets	<u>1,086,487</u>	<u>7,838,021</u>
Deferred Outflows of Resources	<u>23,003</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	70,978	2,811,586
Long-Term Liabilities	322,357	2,661,059
Net Pension Liability	98,135	
Total Liabilities	<u>491,470</u>	<u>5,472,644</u>
Deferred Inflows of Resources	<u>22,664</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	430,782	2,010,260
Restricted	437,165	43,224
Unrestricted	(272,590)	311,893
Total Net Position	<u>595,356</u>	<u>2,365,377</u>

As of December 31, 2015 the city's net position of \$2,688,949 is segregated into three separate categories. Net investment in capital assets totals \$1,879,547. It should be noted that these assets are not available for future spending. The restricted component of net position is \$512,803 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 \$296,599 which includes (\$96,471) 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 \$393,070 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	783,799	122,075
Capital Assets (net of accumulated depreciation)	882,424	4,201,300
Total Assets	<u>1,666,223</u>	<u>4,323,375</u>
Deferred Outflows of Resources	<u>10,828</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	69,842	39,356
Long-Term Liabilities	393,335	2,701,644
Net Pension Liability	89,775	
Total Liabilities	<u>552,952</u>	<u>2,741,000</u>
Deferred Inflows of Resources	<u>17,524</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	419,247	1,460,300
Restricted	478,256	34,547
Unrestricted	209,072	87,527
Total Net Position	<u>1,106,575</u>	<u>1,582,375</u>

Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Assets		
Current Assets	538,655	50,421
Capital Assets (net of accumulated depreciation)	940,731	147,576
Total Assets	1,479,386	197,997
Deferred Outflows of Resources	8,695	0
Liabilities		
Current Liabilities	68,777	
Long-Term Liabilities	463,177	
Net Pension Liability	103,833	
Total Liabilities	635,787	0
Deferred Inflows of Resources	0	0
Net Position		
Net Investment in Capital Assets	408,777	147,576
Restricted	421,112	
Unrestricted	22,404	50,421
Total Net Position	852,294	197,997

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		
Program Revenues:		
Charges for Services	11,925	464,659
Operating Grants and Contributions	198,205	342,350
General Revenues:		
Property Taxes	111,355	
Other Taxes	126,983	
Intergovernmental - Unrestricted	37,072	
Interest Earnings and Other Revenue	7,571	
Total Revenues	493,112	807,009
Expenses		
General Government	183,546	
Public Safety	58,175	
Streets and Public Works	358,486	
Urban and Economic Development	6,896	
Culture and Recreation	34,342	
Other	41,786	
Interest on Long-Term Debt	21,169	
Enterprise		323,938
Total Expenses	704,400	323,938
Net Change in Position Before Transfers	(211,287)	483,071
Transfers	(299,931)	299,931
Net Change in Position	(511,218)	783,002

Property taxes constituted 9%, other taxes 10%, unrestricted intergovernmental 3%, operating grants and contributions 42%, and charges for services made up 37% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 18%, public safety 6%, streets and public works 35%, and enterprise 32% 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	100,938	311,054
Operating Grants and Contributions	389,688	1,317,276
<u>General Revenues:</u>		
Property Taxes	83,731	
Other Taxes	134,041	
Intergovernmental - Unrestricted	52,749	
Interest Earnings and Other Revenue	8,996	
Total Revenues	770,143	1,628,331
Expenses		
General Government	142,056	
Public Safety	60,364	
Streets and Public Works	206,421	
Urban and Economic Development	5,285	
Culture and Recreation	27,746	
Other	33,258	
Interest on Long-Term Debt	23,732	
Enterprise		260,953
Total Expenses	498,862	260,953
Net Change in Position Before Transfers	271,281	1,367,377
Transfers	(17,000)	17,000
Net Change in Position	254,281	1,384,377

Property taxes constituted 3%, other taxes 6%, unrestricted intergovernmental 2%, operating grants and contributions 71%, and charges for services made up 17% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 19%, public safety 8%, streets and public works 27%, and enterprise 34% 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	243,180	221,022
Operating Grants and Contributions	129,193	
<u>General Revenues:</u>		
Property Taxes	99,722	
Other Taxes	134,279	
Intergovernmental - Unrestricted	50,677	
Interest Earnings and Other Revenue	13,052	
Total Revenues	670,102	221,023
Expenses		
General Government	128,480	
Public Safety	46,324	
Streets and Public Works	237,606	
Urban and Economic Development	38,628	
Culture and Recreation	34,319	
Other	29,201	
Interest on Long-Term Debt	26,044	
Enterprise		216,478
Total Expenses	540,603	216,478
Net Change in Position Before Transfers	129,499	4,544
Transfers	38,000	(38,000)
Net Change in Position	167,499	(33,456)

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	183,546	180,721
Public Safety	58,175	58,175
Streets and Public Works	358,486	217,979
Urban and Economic Development	6,896	6,896
Culture and Recreation	34,342	34,342
Other	41,786	41,786
Interest on Long-Term Debt	21,169	(45,630)
Total Expenses	704,400	494,269

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	142,056	135,416
Public Safety	60,364	60,364
Streets and Public Works	206,421	(223,359)
Urban and Economic Development	5,285	5,285
Culture and Recreation	27,746	27,746
Other	33,258	33,258
Interest on Long-Term Debt	23,732	(30,473)
 Total Expenses	 498,862 =====	 8,236 =====

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 \$493,112 and expenditures of \$714,609 for the year ended December 31, 2016. For the year ended December 31, 2015, the city's governmental funds had total revenue of \$770,143 and expenditures of \$507,999. As of December 31, 2016, the unassigned fund balance of the city's general fund was (\$129,130) and total unassigned fund balances for all of the city's governmental funds was (\$288,821). As of December 31, 2015, the unassigned fund balance of the city's general fund was (\$93,728) and total unassigned fund balances for all of the city's governmental funds was (\$207,757).

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 \$15,826 more than budgeted. This budget variance was the result of the city underestimating the total amount of property taxes collected and overestimated the total amount of state aid from the State of North Dakota. Actual expenditures for the year ended December 31, 2016 were over budget by \$52,855. This variance was due to the city underestimating general governmental appropriations.

Actual revenue for the year ended December 31, 2015 was \$12,015 more than budgeted. Actual expenditures for the year ended December 31, 2015 were over budget by \$49,898. This variance was due mainly to the city underestimating appropriations for general governmental and public safety expenditures.

CAPITAL ASSETS

As of December 31, 2016 and 2015, the city had \$8,307,021 and \$5,083,724, respectively, invested in capital assets. The following tables show the balances, for governmental activities 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>
Construction in Progress		7,356,385
Buildings and Infrastructure	667,910	48,461
Machinery and Vehicles	156,207	78,058
Total (net of depreciation)	<u>824,117</u> =====	<u>7,482,904</u> =====

This total represents an increase of \$3,223,297 in capital assets from January 1, 2016. The change in construction in progress was the result of an ongoing water and sewer improvement project.

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

	<u>Governmental</u>	<u>Business- Type</u>
Construction in Progress		4,064,491
Buildings and Infrastructure	712,788	50,992
Machinery and Vehicles	169,636	85,817
Total (net of depreciation)	<u>882,424</u> =====	<u>4,201,300</u> =====

This total represents an increase of \$3,995,417 in capital assets from January 1, 2015. The change in construction in progress was the result of an ongoing water and sewer improvement project.

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

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	757,666	53,523
Machinery and Vehicles	183,065	94,053
Total (net of depreciation)	<u>940,731</u> =====	<u>147,576</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 \$5,865,980 in outstanding debt of which \$2,882,564 was due within one year. As of December 31, 2015, the city had \$3,204,177 in outstanding debt of which \$109,197 was due within one year.

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

Revenue Bonds Payable in the amount of \$2,741,000. The city issued the Water Revenue Bonds, Series 2015 to fund phase I of a USDA water improvement project. These bonds will have a final payment on December 1, 2055.

Revenue Bonds Payable in the amount of \$2,771,000. The city issued the Temporary Improvement Warrants, Series 2016 to fund phase II of a USDA water and sewer improvement project. These bonds are to be refinance on September 1, 2017.

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 Jason Jung, City Auditor, New England, ND.

CITY OF NEW ENGLAND
New England, North Dakota

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

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	262,370.48	355,117.07	617,487.55
Capital Assets (net of accumulated depreciation):			
Construction in Progress		7,356,385.00	7,356,385.00
Buildings and Infrastructure	667,910.00	48,461.00	716,371.00
Machinery and Vehicles	156,207.00	78,058.00	234,265.00
Total Capital Assets	824,117.00	7,482,904.00	8,307,021.00
Total Assets	1,086,487.48	7,838,021.07	8,924,508.55
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	23,003.00		23,003.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Capital Lease Payable	19,472.77		19,472.77
Bank Loan Payable	11,504.96		11,504.96
Special Assessments Bonds Payable	40,000.00		40,000.00
Revenue Bonds Payable		2,811,585.84	2,811,585.84
Due After One Year:			
Bank Loan Payable	82,357.40		82,357.40
Special Assessment Bonds Payable	240,000.00		240,000.00
Revenue Bonds Payable		2,661,058.54	2,661,058.54
Net Pension Liability	98,135.00		98,135.00
Total Liabilities	491,470.13	5,472,644.38	5,964,114.51
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	22,664.00		22,664.00
NET POSITION:			
Net Investment in Capital Assets	430,781.87	2,010,259.62	2,441,041.49
Restricted for:			
Water Project - Phase I		753.94	753.94
Debt Service	104,528.89	41,804.21	146,333.10
Asset Replacement		666.00	666.00
Special Purposes	332,635.71		332,635.71
Unrestricted	(272,590.12)	311,892.92	39,302.80
Total Net Position	595,356.35	2,365,376.69	2,960,733.04

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	783,798.56	122,074.69	905,873.25
Capital Assets (net of accumulated depreciation):			
Construction in Progress		4,064,491.00	4,064,491.00
Buildings and Infrastructure	712,788.00	50,992.00	763,780.00
Machinery and Vehicles	169,636.00	85,817.00	255,453.00
Total Capital Assets	882,424.00	4,201,300.00	5,083,724.00
Total Assets	1,666,222.56	4,323,374.69	5,989,597.25
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	10,828.00		10,828.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Capital Lease Payable	18,905.67		18,905.67
Bank Loan Payable	10,936.01		10,936.01
Special Assessments Bonds Payable	40,000.00		40,000.00
Revenue Bonds Payable		39,355.62	39,355.62
Due After One Year:			
Capital Lease Payable	19,472.77		19,472.77
Bank Loan Payable	93,862.36		93,862.36
Special Assessment Bonds Payable	280,000.00		280,000.00
Revenue Bonds Payable		2,701,644.38	2,701,644.38
Net Pension Liability	89,775.00		89,775.00
Total Liabilities	552,951.81	2,741,000.00	3,293,951.81
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	17,524.00		17,524.00
NET POSITION:			
Net Investment in Capital Assets	419,247.19	1,460,300.00	1,879,547.19
Restricted for:			
Water Project - Phase I		23,050.68	23,050.68
Debt Service	98,149.29	11,496.80	109,646.09
Special Purposes	380,106.59		380,106.59
Unrestricted	209,071.68	87,527.21	296,598.89
Total Net Position	1,106,574.75	1,582,374.69	2,688,949.44

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	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
<u>Functions/Programs</u>					
Primary Government:					
<u>Governmental Activities:</u>					
General Government	183,546.26	2,825.00		(180,721.26)	(180,721.26)
Public Safety	58,174.76			(58,174.76)	(58,174.76)
Streets and Public Works	358,486.05	9,100.00	131,407.26	(217,978.79)	(217,978.79)
Urban and Economic Development	6,895.56			(6,895.56)	(6,895.56)
Culture and Recreation	34,342.42			(34,342.42)	(34,342.42)
Other	41,786.02			(41,786.02)	(41,786.02)
Interest on Long-Term Debt	21,168.54		66,798.20	45,629.66	45,629.66
Total Governmental Activities	704,399.61	11,925.00	198,205.46	(494,269.15)	(494,269.15)
<u>Business-Type Activities:</u>					
Utility	323,938.01	464,658.67	342,350.03		483,070.69
Total Primary Government	1,028,337.62	476,583.67	540,555.49	(494,269.15)	483,070.69
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes				95,878.67	95,878.67
Property taxes; levied for special purposes				15,476.17	15,476.17
Cigarette taxes				1,815.98	1,815.98
City sales taxes				120,436.99	120,436.99
Telecommunication taxes				4,730.39	4,730.39
Intergovernmental revenue not restricted to specific programs				37,072.25	37,072.25
Earnings on investments and other revenue				7,571.32	7,571.61
Transfers				(299,931.02)	299,931.02
Total General Revenues and Transfers				(16,949.25)	282,982.06
Change in Net Position				(511,218.40)	271,783.60
Net Position - January 1				1,106,574.75	2,688,949.44
Net Position - December 31				595,356.35	2,960,733.04

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

CITY OF NEW ENGLAND
New England, 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	Total
Primary Government:						
<u>Governmental Activities:</u>						
General Government	142,055.57	6,640.00		(135,415.57)		(135,415.57)
Public Safety	60,363.87			(60,363.87)		(60,363.87)
Streets and Public Works	206,421.40	94,298.20	335,482.54	223,359.34		223,359.34
Urban and Economic Development	5,285.47			(5,285.47)		(5,285.47)
Culture and Recreation	27,745.50			(27,745.50)		(27,745.50)
Other	33,257.87			(33,257.87)		(33,257.87)
Interest on Long-Term Debt	23,732.04		54,205.13	30,473.09		30,473.09
Total Governmental Activities	498,861.72	100,938.20	389,687.67	(8,235.85)		(8,235.85)
<u>Business-Type Activities:</u>						
Utility	260,953.22	311,054.36	1,317,276.00		1,367,377.14	1,367,377.14
Total Primary Government	759,814.94	411,992.56	1,706,963.67	(8,235.85)	1,367,377.14	1,359,141.29
General Revenues:						
Taxes:						
Property taxes; levied for general purposes				55,630.84		55,630.84
Property taxes; levied for special purposes				28,099.90		28,099.90
Cigarette taxes				1,947.42		1,947.42
City sales taxes				127,362.93		127,362.93
Telecommunication taxes				4,730.39		4,730.39
Intergovernmental revenue not restricted to specific programs				52,749.00		52,749.00
Earnings on investments and other revenue				8,996.45	0.28	8,996.73
Transfers				(17,000.00)	17,000.00	
Total General Revenues and Transfers				262,516.93	17,000.28	279,517.21
Change in Net Position				254,281.08	1,384,377.42	1,638,658.50
Net Position - January 1				947,431.67	197,997.27	1,145,428.94
Prior Period Adjustment, See Note 13				(95,138.00)		(95,138.00)
Net Position - January 1, as restated				852,293.67	197,997.27	1,050,290.94
Net Position - December 31				1,106,574.75	1,582,374.69	2,688,949.44

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Highway Tax	City Sales Tax	Development Fund		
ASSETS:						
Cash and Cash Equivalents		132,588.27	1,000.00	2,206.37	126,575.84	262,370.48
Interfund Receivable			177,000.49	22,645.16		199,645.65
<hr/>						
Total Assets	-0-	132,588.27	178,000.49	24,851.53	126,575.84	462,016.13
<hr style="border-top: 1px dashed black;"/>						
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Interfund Payable	39,954.98				159,690.67	199,645.65
<hr/>						
Fund Balances:						
Restricted for:						
Public Safety					4,539.07	4,539.07
Streets and Public Works		132,588.27				132,588.27
Urban and Economic Development			38,739.21			38,739.21
Municipal Improvements			22,716.65			22,716.65
Equipment			106,997.17			106,997.17
Park District			9,547.46			9,547.46
Debt Service					104,528.89	104,528.89
Emergency Services					11,315.96	11,315.96
Cemetery					6,191.92	6,191.92
Assigned to:						
Municipal Improvements				24,851.53		24,851.53
Unassigned	(39,954.98)				(159,690.67)	(199,645.65)
<hr/>						
Total Fund Balances	(39,954.98)	132,588.27	178,000.49	24,851.53	(33,114.83)	262,370.48
<hr/>						
Total Liabilities and Fund Balances	-0-	132,588.27	178,000.49	24,851.53	126,575.84	462,016.13
<hr style="border-top: 1px dashed black;"/>						

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Highway Tax	City Sales Tax	Development Fund		
ASSETS:						
Cash and Cash Equivalents		110,065.84	240,511.28	305,542.68	127,678.76	783,798.56
Interfund Receivable				207,756.76		207,756.76
<hr/>						
Total Assets	-0-	110,065.84	240,511.28	513,299.44	127,678.76	991,555.32
<hr style="border-top: 1px dashed black;"/>						
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Interfund Payable		93,727.86			114,028.90	207,756.76
<hr/>						
Fund Balances:						
Restricted for:						
General Government					5,244.21	5,244.21
Public Safety					7,193.13	7,193.13
Streets and Public Works		110,065.84				110,065.84
Urban and Economic Development			91,958.43			91,958.43
Municipal Improvements			41,967.46			41,967.46
Equipment			97,012.51			97,012.51
Park District			9,572.88			9,572.88
Debt Service					98,149.29	98,149.29
Emergency Services					11,606.58	11,606.58
Cemetery					5,485.55	5,485.55
Assigned to:						
Municipal Improvements				513,299.44		513,299.44
Unassigned	(93,727.86)				(114,028.90)	(207,756.76)
<hr/>						
Total Fund Balances	(93,727.86)	110,065.84	240,511.28	513,299.44	13,649.86	783,798.56
<hr/>						
Total Liabilities and Fund Balances	-0-	110,065.84	240,511.28	513,299.44	127,678.76	991,555.32
<hr style="border-top: 1px dashed black;"/>						

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

CITY OF NEW ENGLAND
New England, 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		262,370.48
<p>Total net position reported for government activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	1,826,494.00	
Less Accumulated Depreciation	(1,002,377.00)	
Net Capital Assets		824,117.00
<p>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.</p>		
Total Deferred Outflows of Resources	23,003.00	
Total Deferred Inflows of Resources	(22,664.00)	
Net Deferred Outflows/Inflows of Resources		339.00
<p>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:</p>		
Capital Lease Payable	(19,472.77)	
Bank Loan Payable	(93,862.36)	
Special Assessment Bonds Payable	(280,000.00)	
Net Pension Liability	(98,135.00)	
Total Long-Term Liabilities		(491,470.13)
Total Net Position of Governmental Activities		595,356.35

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

CITY OF NEW ENGLAND
New England, 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	783,798.56
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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	1,826,494.00	
Less Accumulated Depreciation	(944,070.00)	
Net Capital Assets		882,424.00

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	10,828.00	
Total Deferred Inflows of Resources	(17,524.00)	
Net Deferred Outflows/Inflows of Resources		(6,696.00)

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:

Capital Lease Payable	(38,378.44)	
Bank Loan Payable	(104,798.37)	
Special Assessment Bonds Payable	(320,000.00)	
Net Pension Liability	(89,775.00)	
Total Long-Term Liabilities		(552,951.81)

Total Net Position of Governmental Activities	1,106,574.75
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The accompanying notes are an integral part of these financial statements.

CITY OF NEW ENGLAND
New England, 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				Other Governmental Funds	Total Governmental Funds
	General	Highway Tax	City Sales Tax	Development Fund		
Revenues:						
Taxes	100,609.06		120,436.99		15,476.17	236,522.22
Special Assessments					66,798.20	66,798.20
Licenses, Permits and Fees	2,825.00					2,825.00
Intergovernmental	38,888.23	58,182.26	73,225.00			170,295.49
Charges for Services				9,100.00		9,100.00
Miscellaneous	4,740.29		20.23	32.98	2,777.82	7,571.32
Total Revenues	147,062.58	58,182.26	193,682.22	9,132.98	85,052.19	493,112.23
Expenditures:						
Current:						
General Government	97,025.77			45,695.00	34,167.49	176,888.26
Public Safety	48,767.17		1,594.09		7,813.50	58,174.76
Streets and Public Works	35,161.62	35,659.83	171,858.86	62,486.74	1,225.00	306,392.05
Urban and Economic Development			6,895.56			6,895.56
Culture and Recreation	1,260.14		32,202.28			33,462.42
Other	250.00		7,322.00	293.13	33,920.89	41,786.02
Debt Service:						
Principal			29,841.68		40,000.00	69,841.68
Interest			6,478.54		14,690.00	21,168.54
Total Expenditures	182,464.70	35,659.83	256,193.01	108,474.87	131,816.88	714,609.29
Excess (Deficiency) of Revenues over Expenditures	(35,402.12)	22,522.43	(62,510.79)	(99,341.89)	(46,764.69)	(221,497.06)
Other Financing Sources (Uses):						
Transfers In	89,175.00					89,175.00
Transfers Out				(389,106.03)		(389,106.03)
Total Other Financing Sources (Uses)	89,175.00			(389,106.03)		(299,931.03)
Net Change in Fund Balances	53,772.88	22,522.43	(62,510.79)	(488,447.92)	(46,764.69)	(521,428.09)
Fund Balance - January 1	(93,727.86)	110,065.84	240,511.28	513,299.44	13,649.86	783,798.56
Fund Balance - December 31	(39,954.98)	132,588.27	178,000.49	24,851.52	(33,114.83)	262,370.47

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

CITY OF NEW ENGLAND
New England, 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					
	General	Highway Tax	City Sales Tax	Development Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	60,361.23		127,362.93		28,099.90	215,824.06
Special Assessments					54,205.13	54,205.13
Licenses, Permits and Fees	6,640.00					6,640.00
Intergovernmental	54,696.42	335,482.54				390,178.96
Charges for Services				94,298.20		94,298.20
Miscellaneous	7,947.38		21.79	33.66	993.62	8,996.45
Total Revenues	129,645.03	335,482.54	127,384.72	94,331.86	83,298.65	770,142.80
Expenditures:						
Current:						
General Government	97,384.53			2,239.90	35,765.14	135,389.57
Public Safety	57,749.01				2,614.86	60,363.87
Streets and Public Works	33,389.94	83,945.42	29,461.64	6,970.40	560.00	154,327.40
Urban and Economic Development			5,285.47			5,285.47
Culture and Recreation	1,399.96		25,465.54			26,865.50
Other	250.00				33,007.87	33,257.87
Debt Service:						
Principal			28,777.18		40,000.00	68,777.18
Interest			7,543.04		16,189.00	23,732.04
Total Expenditures	190,173.44	83,945.42	96,532.87	9,210.30	128,136.87	507,998.90
Excess (Deficiency) of Revenues over Expenditures	(60,528.41)	251,537.12	30,851.85	85,121.56	(44,838.22)	262,143.90
Other Financing Sources (Uses):						
Transfers In				220,000.00		220,000.00
Transfers Out		(220,000.00)		(17,000.00)		(237,000.00)
Total Other Financing Sources (Uses)		(220,000.00)		203,000.00		(17,000.00)
Net Change in Fund Balances	(60,528.41)	31,537.12	30,851.85	288,121.56	(44,838.22)	245,143.90
Fund Balance - January 1	(33,199.45)	78,528.72	209,659.43	225,177.88	58,488.08	538,654.66
Fund Balance - December 31	(93,727.86)	110,065.84	240,511.28	513,299.44	13,649.86	783,798.56

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

CITY OF NEW ENGLAND
New England, 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 (521,428.08)

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 depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(58,307.00)	(58,307.00)

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	69,841.68	69,841.68

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		(1,325.00)

Change in Net Position of Governmental Activities		(511,218.40)

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

CITY OF NEW ENGLAND
New England, 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 245,143.90

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 depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(58,307.00)	(58,307.00)

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	68,777.18	68,777.18

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		(1,333.00)
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Change in Net Position of Governmental Activities		254,281.08
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The accompanying notes are an integral part of these financial statements.

CITY OF NEW ENGLAND
New England, North Dakota

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

	Major Enterprise Funds		
	Utility Fund	Garbage Truck Reserve	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	352,261.65	2,855.42	355,117.07
Noncurrent Assets:			
Capital Assets (net of accumulated depr):			
Construction in Progress	7,356,385.00		7,356,385.00
Buildings and Infrastructure	48,461.00		48,461.00
Machinery and Vehicles	1,619.00	76,439.00	78,058.00
Total Noncurrent Assets	7,406,465.00	76,439.00	7,482,904.00
Total Assets	7,758,726.65	79,294.42	7,838,021.07
LIABILITIES			
Current Liabilities:			
Revenue Bonds Payable	2,811,585.84		2,811,585.84
Noncurrent Liabilities:			
Revenue Bonds Payable	2,661,058.54		2,661,058.54
Total Liabilities	5,472,644.38		5,472,644.38
NET POSITION			
Net Investment in Capital Assets	1,933,820.62	76,439.00	2,010,259.62
Restricted for:			
Water Project - Phase I	753.94		753.94
Debt Service	41,804.21		41,804.21
Asset Replacement	666.00		666.00
Unrestricted	309,037.50	2,855.42	311,892.92
Total Net Position	2,286,082.27	79,294.42	2,365,376.69

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	Major Enterprise Funds		
	Utility Fund	Garbage Truck Reserve	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	119,219.56	2,855.13	122,074.69
Noncurrent Assets:			
Capital Assets (net of accumulated depr):			
Construction in Progress	4,064,491.00		4,064,491.00
Buildings and Infrastructure	50,992.00		50,992.00
Machinery and Vehicles	2,429.00	83,388.00	85,817.00
Total Noncurrent Assets	4,117,912.00	83,388.00	4,201,300.00
Total Assets	4,237,131.56	86,243.13	4,323,374.69
LIABILITIES			
Current Liabilities:			
Revenue Bonds Payable	39,355.62		39,355.62
Noncurrent Liabilities:			
Revenue Bonds Payable	2,701,644.38		2,701,644.38
Total Liabilities	2,741,000.00		2,741,000.00
NET POSITION			
Net Investment in Capital Assets	1,376,912.00	83,388.00	1,460,300.00
Restricted for:			
Water Project - Phase I	23,050.68		23,050.68
Debt Service	11,496.80		11,496.80
Unrestricted	84,672.08	2,855.13	87,527.21
Total Net Position	1,496,131.56	86,243.13	1,582,374.69

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

CITY OF NEW ENGLAND
New England, 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		
	Utility Fund	Garbage Truck Reserve	Total Enterprise Funds
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Utility Charges	362,223.86		362,223.86
Water Maintenance Charge	30,307.41		30,307.41
Well Water Sales	68,020.40		68,020.40
Grey Water Dumping Fees	2,767.00		2,767.00
Other Charges	1,340.00		1,340.00
Total Charges for Sales and Services	464,658.67		464,658.67
<u>Operating Expenses:</u>			
Water	148,396.33		148,396.33
Garbage	60,589.51		60,589.51
Depreciation	3,341.00	6,949.00	10,290.00
Total Operating Expenses	212,326.84	6,949.00	219,275.84
Operating Income (Loss)	252,331.83	(6,949.00)	245,382.83
<u>Non-Operating Revenues:</u>			
Interest Income		0.29	0.29
USDA Grants	342,350.03		342,350.03
Other Disbursements	(10,379.97)		(10,379.97)
Interest Expense	(94,282.20)		(94,282.20)
Total Non-Operating Revenues (Expenses)	237,687.86	0.29	237,688.15
Income (Loss) Before Transfers	490,019.69	(6,948.71)	483,070.98
Transfers In	300,931.02		300,931.02
Transfers Out	(1,000.00)		(1,000.00)
Change in Net Position	789,950.71	(6,948.71)	783,002.00
Net Position - January 1	1,496,131.56	86,243.13	1,582,374.69
Net Position - December 31	2,286,082.27	79,294.42	2,365,376.69

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

CITY OF NEW ENGLAND
New England, 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		
	Utility Fund	Garbage Truck Reserve	Total Enterprise Funds
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Utility Charges	287,005.36		287,005.36
Water Maintenance Charge	11,496.80		11,496.80
Grey Water Dumping Fees	12,552.20		12,552.20
Total Charges for Sales and Services	311,054.36		311,054.36
<u>Operating Expenses:</u>			
Water	186,428.57		186,428.57
Garbage	61,023.33		61,023.33
Depreciation	3,818.00	6,949.00	10,767.00
Total Operating Expenses	251,269.90	6,949.00	258,218.90
Operating Income (Loss)	59,784.46	(6,949.00)	52,835.46
<u>Non-Operating Revenues (Expenses):</u>			
Interest Income		0.28	0.28
USDA Grants	1,317,276.00		1,317,276.00
Other Disbursements	(2,734.32)		(2,734.32)
Total Non-Operating Revenues (Expenses)	1,314,541.68	0.28	1,314,541.96
Income (Loss) Before Transfers	1,374,326.14	(6,948.72)	1,367,377.42
Transfers In	32,000.00		32,000.00
Transfers Out	(15,000.00)		(15,000.00)
Change in Net Position	1,391,326.14	(6,948.72)	1,384,377.42
Net Position - January 1	104,805.42	93,191.85	197,997.27
Net Position - December 31	1,496,131.56	86,243.13	1,582,374.69

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	Major Enterprise Funds		
	Utility Fund	Garbage Truck Reserve	Total Enterprise Funds
<u>Cash flows from operating activities:</u>			
Receipts from customers	464,658.67		464,658.67
Payments to suppliers and employees	(208,985.84)		(208,985.84)
Net cash provided (used) by operating activities	255,672.83		255,672.83
<u>Cash flows from noncapital financing activities:</u>			
Other disbursements	(10,379.97)		(10,379.97)
Transfers in	300,931.02		300,931.02
Transfers out	(1,000.00)		(1,000.00)
Net cash provided (uses) by noncapital financing activities	289,551.05		289,551.05
<u>Cash flows from capital and related financing activities:</u>			
USDA grants	342,350.03		342,350.03
Revenue bonds issued	2,771,000.00		2,771,000.00
Water project	(3,291,894.00)		(3,291,894.00)
Principal payments	(39,355.62)		(39,355.62)
Interest payments	(94,282.20)		(94,282.20)
Net cash provided (uses) by capital and related financing activities	(312,181.79)		(312,181.79)
<u>Cash flows from investing activities:</u>			
Interest income		0.29	0.29
Net increase in cash and cash equivalents	233,042.09	0.29	233,042.38
Cash and cash equivalents, January 1	119,219.56	2,855.13	122,074.69
Cash and cash equivalents, December 31	352,261.65	2,855.42	355,117.07
=====			
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>			
Operating income (loss)	252,331.83	(6,949.00)	245,382.83
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	3,341.00	6,949.00	10,290.00
Net cash provided (used) by operating activities	255,672.83	-0-	255,672.83
=====			

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

CITY OF NEW ENGLAND
New England, North Dakota

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

	Major Enterprise Funds		Total Enterprise Funds
	Utility Fund	Garbage Truck Reserve	
<u>Cash flows from operating activities:</u>			
Receipts from customers	311,054.36		311,054.36
Payments to suppliers and employees	(247,451.90)		(247,451.90)
Net cash provided (used) by operating activities	63,602.46		63,602.46
<u>Cash flows from noncapital financing activities:</u>			
Other disbursements	(2,734.32)		(2,734.32)
Transfers in	32,000.00		32,000.00
Transfers out	(15,000.00)		(15,000.00)
Net cash provided (uses) by noncapital financing activities	14,265.68		14,265.68
<u>Cash flows from capital and related financing activities:</u>			
USDA grants	1,317,276.00		1,317,276.00
Revenue bonds issued	2,741,000.00		2,741,000.00
Water project	(4,064,491.00)		(4,064,491.00)
Net cash provided (uses) by capital and related financing activities	(6,215.00)		(6,215.00)
<u>Cash flows from investing activities:</u>			
Interest income		0.28	0.28
Net increase in cash and cash equivalents	71,653.14	0.28	71,653.42
Cash and cash equivalents, January 1	47,566.42	2,854.85	50,421.27
Cash and cash equivalents, December 31	119,219.56	2,855.13	122,074.69
=====			
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>			
Operating income (loss)	59,784.46	(6,949.00)	52,835.46
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	3,818.00	6,949.00	10,767.00
Net cash provided (used) by operating activities	63,602.46	-0-	63,602.46
=====			

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

CITY OF NEW ENGLAND
New England, North Dakota

Notes to the Financial Statements
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New England 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 New England 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 New England. 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. 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 and enterprise 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.

Highway Tax. This fund accounts for a special levy, the state highway distribution tax and other state grants to be used for street repairs and maintenance.

City Sales Tax. This city uses this fund to accumulate sales tax for the purpose of urban and economic development, municipal improvement and to provide funding for the park district's swimming pool.

Development Fund. This city uses this fund to account for charges related to grey water dumping fees that have been set-aside for municipal improvements.

The city reports the following major enterprise funds:

Utility Fund. This fund accounts for the activities of the city's water, sewer and garbage operations.

Garbage Truck Reserve. This fund is used to accumulate resources for the purchase of a new garbage truck.

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, business-like and fiduciary fund 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 and Cash Equivalents

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

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	25 to 75 years
Machinery and Vehicles	8 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 \$617,488 and the bank balance was \$624,766. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$377,766 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 \$905,873 and the bank balance was \$919,382. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$669,382 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.

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 RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the years ended December 31, 2016 and 2015 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
<u>December 31, 2016</u>		
City Sales Tax	177,000.49	
Development Fund	22,645.16	
General Fund		39,954.98
Social Security		5,494.16
Auditorium		68,728.94
Insurance Reserve		27,868.97
Employee Pension		38,347.46
Advertising		19,251.14
<u>December 31, 2015</u>		
Development Fund	207,756.76	
General Fund		93,727.86
Auditorium		49,494.92
Insurance Reserve		16,830.58
Employee Pension		31,018.59
Advertising		16,684.81

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</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
		<u>January 1</u>			<u>December 31</u>
Governmental Activities:					
<i>Capital assets</i>					
<i>being depreciated:</i>					
Buildings and					
Infrastructure		1,601,289			1,601,289
Machinery and					
Vehicles		225,205			225,205
Total		<u>1,826,494</u>			<u>1,826,494</u>
<i>Less accumulated depreciation for:</i>					
Buildings and					
Infrastructure		888,501	44,878		933,379
Machinery and					
Vehicles		55,569	13,429		68,998
Total		<u>944,070</u>	<u>58,307</u>		<u>1,002,377</u>
Governmental Activities					
Capital Assets, Net		<u>882,424</u>	<u>(58,307)</u>	<u>-0-</u>	<u>824,117</u>
		=====	=====	=====	=====

		<u>2015</u>			
		<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
		<u>January 1</u>			<u>December 31</u>
Governmental Activities:					
<i>Capital assets</i>					
<i>being depreciated:</i>					
Buildings and					
Infrastructure		1,601,289			1,601,289
Machinery and					
Vehicles		225,205			225,205
Total		<u>1,826,494</u>			<u>1,826,494</u>
<i>Less accumulated depreciation for:</i>					
Buildings and					
Infrastructure		843,623	44,878		888,501
Machinery and					
Vehicles		42,140	13,429		55,569
Total		<u>885,763</u>	<u>58,307</u>		<u>944,070</u>
Governmental Activities					
Capital Assets, Net		<u>940,731</u>	<u>(58,307)</u>	<u>-0-</u>	<u>882,424</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</i> <i>being depreciated:</i>				
Construction in Progress	4,064,491	3,291,894		7,356,385
<i>Capital assets</i> <i>being depreciated:</i>				
Buildings and Infrastructure	101,240			101,240
Machinery and Vehicles	129,983		9,550	120,433
Total	231,223		9,550	221,673
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	50,248	2,531		52,779
Machinery and Vehicles	44,166	7,759	9,550	42,375
Total	94,414	10,290	9,550	95,154
Total capital assets being depreciated, net	136,809	(10,290)		126,519
Business-type Activities Capital Assets, Net	4,201,300	3,281,604	-0-	7,482,904
	=====	=====	=====	=====

	<u>2015</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</i> <i>being depreciated:</i>				
Construction in Progress		4,064,491		4,064,491
<i>Capital assets</i> <i>being depreciated:</i>				
Buildings and Infrastructure	101,240			101,240
Machinery and Vehicles	129,983			129,983
Total	231,223			231,223
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	47,717	2,531		50,248
Machinery and Vehicles	35,930	8,236		44,166
Total	83,647	10,767		94,414
Total capital assets being depreciated, net	147,576	(10,767)		136,809
Business-type Activities Capital Assets, Net	147,576	4,053,724	-0-	4,201,300
	=====	=====	=====	=====

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>		
General Government	5,333	5,333
Streets and Public Works	52,094	52,094
Culture and Recreation	880	880
Total	<u>58,307</u>	<u>58,307</u>
	=====	=====
<u>Business-type Activities:</u>		
Utility	10,290	10,767
	=====	=====

Note 6 CAPITAL LEASE PAYABLE

The city has entered into the following lease agreement.

\$111,855.00 lease-purchase of a Caterpillar 924HZ Wheel Loader, due in a final installment of \$20,056.96 on May 1, 2017; interest is at 3%.	19,472.77
	=====

This lease agreement qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term). The following is a schedule of the future minimum lease payments under this capital lease, and the net present value of the minimum lease payments at December 31, 2016:

<u>Year Ending December 31</u>	<u>Governmental Activities Lease Payments</u>
2017	20,056.96
Less: amount representing interest	(584.19)
Present value of future minimum lease payments	<u>19,472.77</u>
	=====

Note 7 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 of the city:

Governmental Activities:

	<u>2016</u>				
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Capital Lease	38,378		18,905	19,473	19,473
Bank Loan	104,798		10,936	93,862	11,505
Special Assessment Bonds	320,000		40,000	280,000	40,000
Total	<u>463,176</u>	<u>-0-</u>	<u>69,842</u>	<u>393,340</u>	<u>70,978</u>
	=====	=====	=====	=====	=====

2015

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Capital Lease	56,733		18,355	38,378	18,906
Bank Loan	115,221		10,423	104,798	10,936
Special Assessment Bonds	360,000		40,000	320,000	40,000
Total	531,954	-0-	68,778	463,176	69,842

Business-type Activities (Proprietary Funds):

2016

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	2,741,000	2,771,000	39,356	5,472,644	2,811,586

2015

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	-0-	2,741,000	-0-	2,741,000	39,356

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:

Loan Payable. The city has obtained financing for the purchase of a new city shop building.

\$125,289.00 Loan Payable due in annual installments of \$16,263.26 through October 1, 2023; interest is at 5%.

93,862.36

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	11,504.96	4,758.30
2018	12,088.20	4,175.06
2019	12,701.00	3,562.26
2020	13,336.88	2,926.38
2021	14,020.98	2,242.28
2022-2023	30,210.34	2,316.18
Total	93,862.36	19,980.46

Special Assessment Bond Debt. The city has issued special assessment bonds to provide for the construction and/or improvement of streets and sewer lines. Special assessment bonds outstanding at December 31, 2016 are as follows:

\$590,000 Refunding Improvement Bonds of 2008; due in annual installments of \$40,000 through May 1, 2023; interest is at 4.6%.	280,000.00
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	40,000.00	11,960.00
2018	40,000.00	10,120.00
2019	40,000.00	8,280.00
2020	40,000.00	6,440.00
2021	40,000.00	4,600.00
2022-2023	80,000.00	3,680.00
 Total	 <u>280,000.00</u>	 <u>45,080.00</u>
	=====	=====

Business-Type Activities:

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:

\$2,741,000 Water Revenue Bonds, Series 2015; due in annual installments of \$111,504 through December 1, 2055; interest is at 2.625%.	2,701,644.38
\$2,771,000 Temporary Improvement Warrants, Series 2016, due to be refinanced on September 1, 2017; interest is at 3.625%.	2,771,000.00
 Total Revenue Bonds Payable	 <u>5,472,644.38</u>
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	2,811,586	150,557
2018	41,651	69,853
2019	42,745	68,759
2020	43,681	67,823
2021	45,013	66,491
2022-2026	243,241	314,279
2027-2021	276,899	280,621
2032-2036	315,090	242,430
2037-2041	358,849	198,671
2042-2046	408,506	149,014
2047-2051	465,037	92,483
2052-2055	420,347	28,066
 Total	 <u>5,472,644</u>	 <u>1,729,048</u>
	=====	=====

Note 8 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the years ended December 31:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2016</u>		
General Fund	89,175.00	
Development Fund		89,175.00
To subsidize expenditures.		
Water Project - Phase I	112,306.87	
Water and Sewer Project - Phase II	187,958.15	
Development Fund		299,265.02
Utility		1,000.00
To subsidize USDA project expenditures.		
Utility: Asset Replacement	666.00	
Development Fund		666.00
To set-aside funds as per USDA requirements.		

December 31, 2015

Water Project - Phase I	32,000.00	
Development Fund		17,000.00
Utility		15,000.00
To subsidize USDA project expenditures.		
Development Fund	220,000.00	
Highway Tax		220,000.00

To transfer a portion of surge funds to subsidize various projects.

Note 9 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
General Fund	(39,954.98)	(93,727.86)
<u>Special Revenue Funds</u>		
Social Security	(5,494.16)	
Auditorium	(68,728.94)	(49,494.92)
Insurance Reserve	(27,868.97)	(16,830.58)
Employee Pension	(38,347.46)	(31,018.59)
Advertising	(19,251.14)	(16,684.81)

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

Note 10 RELATED ORGANIZATIONS

The city is also responsible for levying a property tax for the New England Library and New England Ambulance. However, the city's accountability for these entities does not extend beyond levying the tax. In 2016 and 2015, the city remitted \$2,618.28 and \$2,634.01 to the library and \$18.26 and \$509.45 to the ambulance, respectively.

Note 11 RISK MANAGEMENT

The City of New England 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 \$306,215 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 \$163,000 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 12 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 New England reported a liability of \$98,135 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 .014432 percent, which was an increase of .000288 from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016 the city recognized pension expense of \$9,609. 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	2,847	
Changes in assumptions		8,743
Net difference between projected and actual earnings on pension plan investments	11,339	13,411
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,770	510
City contributions subsequent to the measurement date (see below)	7,047	
Total	<u>23,003</u>	<u>22,664</u>
	=====	=====

\$7,047 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	(2,403)
2018	(2,403)
2019	(2,403)
2020	1,878
2021	(1,376)
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 Morality 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	Long-Term	
	Target Allocation	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	150,485	98,135	55,303

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 13 PRIOR PERIOD ADJUSTMENT

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

CITY OF NEW ENGLAND
New England, 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	65,667.00	65,667.00	100,609.06	34,942.06
Licenses, Permits and Fees	7,030.00	7,030.00	2,825.00	(4,205.00)
Intergovernmental	55,900.00	55,900.00	38,888.23	(17,011.77)
Charges for Services	1,600.00	1,600.00		(1,600.00)
Miscellaneous	1,040.00	1,040.00	4,740.29	3,700.29
Total Revenues	131,237.00	131,237.00	147,062.58	15,825.58
<u>Expenditures:</u>				
Current:				
General Government	64,860.00	64,860.00	97,025.77	(32,165.77)
Public Safety	39,000.00	39,000.00	48,767.17	(9,767.17)
Streets and Public Works	25,500.00	25,500.00	35,161.62	(9,661.62)
Culture and Recreation			1,260.14	(1,260.14)
Other	250.00	250.00	250.00	
Total Expenditures	129,610.00	129,610.00	182,464.70	(52,854.70)
Excess (Deficiency) of Revenue Over Expenditures	1,627.00	1,627.00	(35,402.12)	(37,029.12)
<u>Other Financing Sources:</u>				
Transfers In			89,175.00	89,175.00
Net Change in Fund Balances	1,627.00	1,627.00	53,772.88	52,145.88
Fund Balance - January 1	(93,727.86)	(93,727.86)	(93,727.86)	
Fund Balance - December 31	(92,100.86)	(92,100.86)	(39,954.98)	52,145.88

CITY OF NEW ENGLAND
New England, 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	51,000.00	51,000.00	60,361.23	9,361.23
Licenses, Permits and Fees	5,130.00	5,130.00	6,640.00	1,510.00
Intergovernmental	53,800.00	53,800.00	54,696.42	896.42
Charges for Services	1,500.00	1,500.00		(1,500.00)
Miscellaneous	6,200.00	6,200.00	7,947.38	1,747.38
Total Revenues	117,630.00	117,630.00	129,645.03	12,015.03
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	74,525.00	74,525.00	97,384.53	(22,859.53)
Public Safety	39,000.00	39,000.00	57,749.01	(18,749.01)
Streets and Public Works	26,500.00	26,500.00	33,389.94	(6,889.94)
Culture and Recreation			1,399.96	(1,399.96)
Other	250.00	250.00	250.00	
Total Expenditures	140,275.00	140,275.00	190,173.44	(49,898.44)
Net Change in Fund Balances	(22,645.00)	(22,645.00)	(60,528.41)	(37,883.41)
Fund Balance - January 1	(33,199.45)	(33,199.45)	(33,199.45)	
Fund Balance - December 31	(55,844.45)	(55,844.45)	(93,727.86)	(37,883.41)

CITY OF NEW ENGLAND
New England, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	30.00	30.00		(30.00)
Intergovernmental	67,000.00	67,000.00	58,182.26	(8,817.74)
Total Revenues	67,030.00	67,030.00	58,182.26	(8,847.74)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	15,800.00	15,800.00	35,659.83	(19,859.83)
Net Change in Fund Balances	51,230.00	51,230.00	22,522.43	(28,707.57)
Fund Balance - January 1	110,065.84	110,065.84	110,065.84	
Fund Balance - December 31	161,295.84	161,295.84	132,588.27	(28,707.57)

CITY OF NEW ENGLAND
New England, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	25.00	25.00		(25.00)
Intergovernmental	120,000.00	120,000.00	335,482.54	215,482.54
Total Revenues	120,025.00	120,025.00	335,482.54	215,457.54
<u>Expenditures:</u>				
Current:				
Streets and Public Works	23,150.00	23,150.00	83,945.42	(60,795.42)
Excess (Deficiency) of Revenues Over Expenditures	96,875.00	96,875.00	251,537.12	154,662.12
<u>Other Financing (Uses):</u>				
Transfers Out			(220,000.00)	(220,000.00)
Net Change in Fund Balances	96,875.00	96,875.00	31,537.12	(65,337.88)
Fund Balance - January 1	78,528.72	78,528.72	78,528.72	
Fund Balance - December 31	175,403.72	175,403.72	110,065.84	(65,337.88)

CITY OF NEW ENGLAND
New England, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City 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	118,000.00	118,000.00	120,436.99	2,436.99
Intergovernmental			73,225.00	73,225.00
Miscellaneous			20.23	20.23
Total Revenues	118,000.00	118,000.00	193,682.22	75,682.22
<u>Expenditures:</u>				
Current:				
Public Safety			1,594.09	(1,594.09)
Streets and Public Works			171,858.86	(171,858.86)
Urban and Economic Development			6,895.56	(6,895.56)
Culture and Recreation			32,202.28	(32,202.28)
Other			7,322.00	(7,322.00)
Debt Service:				
Principal			29,841.68	(29,841.68)
Interest			6,478.54	(6,478.54)
Total Expenditures			256,193.01	(256,193.01)
Net Change in Fund Balances	118,000.00	118,000.00	(62,510.79)	(180,510.79)
Fund Balance - January 1	240,511.28	240,511.28	240,511.28	
Fund Balance - December 31	358,511.28	358,511.28	178,000.49	(180,510.79)

CITY OF NEW ENGLAND
New England, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City 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	145,000.00	145,000.00	127,362.93	(17,637.07)
Miscellaneous			21.79	21.79
Total Revenues	145,000.00	145,000.00	127,384.72	(17,615.28)
<u>Expenditures:</u>				
Current:				
Streets and Public Works			29,461.64	(29,461.64)
Urban and Economic Development			5,285.47	(5,285.47)
Culture and Recreation	36,250.00	36,250.00	25,465.54	10,784.46
Debt Service:				
Principal			28,777.18	(28,777.18)
Interest			7,543.04	(7,543.04)
Total Expenditures	36,250.00	36,250.00	96,532.87	(60,282.87)
Net Change in Fund Balances	108,750.00	108,750.00	30,851.85	(77,898.15)
Fund Balance - January 1	209,659.43	209,659.43	209,659.43	
Fund Balance - December 31	318,409.43	318,409.43	240,511.28	(77,898.15)

CITY OF NEW ENGLAND
New England, 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
General Fund	52,854.70	49,898.44
<u>Special Revenue Funds</u>		
Highway Tax	19,859.83	60,795.42
Auditorium	5,542.87	14,085.00
Employee Pension	3,391.89	2,391.89
Advertising		337.97
City Sales Tax	256,193.01	60,282.87
* Development Fund	108,474.87	9,210.30
Social Security	1,011.43	255.28
Insurance Reserve	682.00	3,680.00
Fire Hall Savings	2,313.50	
Emergency	665.00	560.00
<u>Debt Service Fund</u>		
Refunding Impr. Bonds of 2008	5,593.02	416.87

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

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

CITY OF NEW ENGLAND
New England, 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	0.014144%	0.014432%
City's proportionate share of the net pension liability	89,775	98,135
City's covered-employee payroll	119,145	128,569
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.35%	76.33%
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	7,888	9,154
Contributions in relation to the statutorily required contribution	(7,888)	(9,154)
Contribution deficiency (excess)	0	0
City's covered-employee payroll	119,145	128,569
Contributions as a percentage of covered-employee payroll	6.62%	7.12%

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

- For changes of assumptions, see Note 12 to the financial statements.

CITY OF NEW ENGLAND
New England, 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
Major Governmental Funds:						
General Fund	(93,727.86)	147,062.58	89,175.00		182,464.70	(39,954.98)
Highway Tax	110,065.84	58,182.26			35,659.83	132,588.27
City Sales Tax	240,511.28	193,682.22			256,193.01	178,000.49
Development Fund	513,299.44	9,132.98		389,106.02	108,474.87	24,851.53
Total Major Governmental Funds	770,148.70	408,060.04	89,175.00	389,106.02	582,792.41	295,485.31
Non-Major Governmental Funds:						
Special Assessment Deficiency	4,713.88					4,713.88
Social Security	5,244.21	273.06			11,011.43	(5,494.16)
Auditorium	(49,494.92)	808.85			20,042.87	(68,728.94)
Insurance Reserve	(16,830.58)	143.61			11,182.00	(27,868.97)
Employee Pension	(31,018.59)	2,063.02			9,391.89	(38,347.46)
Advertising	(16,684.81)	15.84			2,582.17	(19,251.14)
Fire Hall Savings	7,193.13	5,159.44			7,813.50	4,539.07
Cemetery	5,485.55	706.37				6,191.92
Emergency	11,606.58	934.38			1,225.00	11,315.96
Refunding Improvement Bonds of 2008	93,435.41	74,947.62			68,568.02	99,815.01
Total Non-Major Governmental Funds	13,649.86	85,052.19			131,816.88	(33,114.83)
Total Governmental Funds	783,798.56	493,112.23	89,175.00	389,106.02	714,609.29	262,370.48
Major Enterprise Funds						
Utility Fund:						
Operating	96,168.88	464,658.67	666.00	1,000.00	208,985.84	351,507.71
Water Project - Phase I	23,050.68	342,350.03	112,306.87		476,953.64	753.94
Water & Sewer Project - Phase II		2,771,000.00	187,958.15		2,958,958.15	
Garbage Truck Reserve	2,855.13	0.29				2,855.42
Total Enterprise Funds	122,074.69	3,578,008.99	300,931.02	1,000.00	3,644,897.63	355,117.07
Fiduciary Fund						
Agency Funds						
Park District		11,707.04			11,707.04	
Library		2,618.28			2,618.28	
Ambulance		18.26			18.26	
Rural Business Development Grant		89,175.00			89,175.00	
Total Fiduciary Fund		91,811.54			103,518.58	
Total All Funds	905,873.25	4,162,932.76	390,106.02	390,106.02	4,463,025.50	617,487.55

CITY OF NEW ENGLAND
New England, 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	(33,199.45)	129,645.03			190,173.44	(93,727.86)
Highway Tax	78,528.72	335,482.54		220,000.00	83,945.42	110,065.84
City Sales Tax	209,659.43	127,384.72			96,532.87	240,511.28
Development Fund	225,177.88	94,331.86	220,000.00	17,000.00	9,210.30	513,299.44
Total Major Governmental Funds	480,166.58	686,844.15	220,000.00	237,000.00	379,862.03	770,148.70
<u>Non-Major Governmental Funds:</u>						
Special Assessment Deficiency	4,713.53	0.35				4,713.88
Social Security	10,424.12	7,575.37			12,755.28	5,244.21
Auditorium	(28,006.16)	3,596.24			25,085.00	(49,494.92)
Insurance Reserve	(8,554.37)	2,403.79			10,680.00	(16,830.58)
Employee Pension	(23,689.72)	2,063.02			9,391.89	(31,018.59)
Advertising	(14,185.73)	438.89			2,937.97	(16,684.81)
Fire Hall Savings	5,007.93	4,800.06			2,614.86	7,193.13
Cemetery	4,851.27	634.28				5,485.55
Emergency	11,323.13	843.45			560.00	11,606.58
Refunding Improvement Bonds of 2008	96,604.08	60,943.20			64,111.87	93,435.41
Total Non-Major Governmental Funds	58,488.08	83,298.65			128,136.87	13,649.86
Total Governmental Funds	538,654.66	770,142.80	220,000.00	237,000.00	507,998.90	783,798.56
<u>Major Enterprise Funds</u>						
Utility Fund:						
Operating	47,566.42	311,054.36		15,000.00	247,451.90	96,168.88
Water Project - Phase I		4,058,276.00	32,000.00		4,067,225.32	23,050.68
Garbage Truck Reserve	2,854.85	0.28				2,855.13
Total Enterprise Funds	50,421.27	4,369,330.64	32,000.00	15,000.00	4,314,677.22	122,074.69
<u>Fiduciary Fund</u>						
<u>Agency Funds</u>						
Park District	4,631.11	16,657.57			21,288.68	
Library	(403.37)	2,634.01			2,230.64	
Ambulance		509.45			509.45	
Total Fiduciary Fund	4,227.74	19,801.03			24,028.77	
Total All Funds	593,303.67	5,159,274.47	252,000.00	252,000.00	4,846,704.89	905,873.25

CITY OF NEW ENGLAND
New England, North Dakota

Schedule of Expenditures of Federal Awards
For the Years Ended December 31, 2016 and 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Expenditures	
			2016	2015
<u>U.S. Department of Agriculture</u>				
Rural Development - Direct Program:				
Rural Business Development Grant	10.351	40-021-056590423	89,175.00	
Water and Waste Disposal Systems for Rural Communities - Loans	10.760		2,771,000.00	2,741,000.00
Water and Waste Disposal Systems for Rural Communities - Grants	10.760		342,350.03	1,317,276.00
Total Water and Waste Disposal Systems for Rural Communities			3,113,350.03	4,058,276.00
Total U.S. Department of Agriculture			3,202,525.03	4,058,276.00
<u>U.S. Department of Housing and Urban Development</u>				
Passed Through the State Division of Community Services:				
Community Development Block Grant/State's Program	14.228	3887-CD1415-PF	73,225.00	
Total Expenditures of Federal Awards			3,275,750.03	4,058,276.00

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

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

The de minimis indirect cost rate was not used.

Note 2 - Loan Outstanding

Program Title	Federal CFDA Number	Outstanding Loan Balance
Water and Waste Disposal Systems for Rural Communities	10.760	5,472,644.38

Rath & Mehler, 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 New England
New England, 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 New England, New England, 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 September 15, 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 2016-001 and 2016-002, 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 is described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits 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 Mehret

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 15, 2017

Rath & Mehner, P.C.

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of New England
New England, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of New England's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the city's major federal program for the years ended December 31, 2016 and 2015. The city's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audits provide a reasonable basis for our opinion on compliance for the major federal program. However, our audits do not provide a legal determination of the city's compliance.

Opinion on Each Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the years ended December 31, 2016 and 2015.

Report on Internal Control Over Compliance

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

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

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

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

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 15, 2017

CITY OF NEW ENGLAND
New England, 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 X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial statements noted? Yes X No

Federal Awards

Internal control over major program(s):

* Material weakness(es) identified? Yes X No

* Significant deficiency(ies) identified? Yes X None Reported

Type of auditor's report issued on compliance for major program(s): Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major program(s):

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2016-001 - 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. 2016-002 - 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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.