

AUDIT REPORT

**CITY OF NEW SALEM
New Salem, North Dakota**

For the Years Ended December 31, 2015 and 2014

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF NEW SALEM
New Salem, North Dakota

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CITY OF NEW SALEM
New Salem, North Dakota

CITY OFFICIALS

Lynette Fitterer	Mayor
Pat Fleckenstein	Council Member
Gary Hoffmann	Council Member
Delton Kautzman	Council Member
Delores Klusmann	Council Member
Eugene Schaaf	Council Member
Aglae Young	Council Member
Melissa Davis	Auditor

Rath & Mehrer

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Jayson Rath, CPA

Ken Mehrer, CPA

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of New Salem
New Salem, 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 Salem, New Salem, North Dakota, as of and for the years ended December 31, 2015 and 2014, 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 Salem, New Salem, North Dakota, as of December 31, 2015 and 2014, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

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

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2016 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 Mehner

Rath and Mehner, P.C.

Bismarck, North Dakota

June 10, 2016

CITY OF NEW SALEM

Management's Discussion and Analysis

December 31, 2015 and 2014

The Management's Discussion and Analysis (MD&A) of the City of New Salem's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2015 and 2014. 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, 2015 are as follows:

- * Total net position of the city increased \$88,143 as a result of the current year's operations. Net position of the governmental activities increased \$139,319 and net position of the business-type activities decreased \$51,176.
- * Governmental net position totaled \$916,428 and business-type net position totaled \$336,601.
- * Total revenues from all sources were \$548,970 for governmental activities and \$318,164 for business-type activities.
- * Total expenses were \$409,652 for governmental activities and \$369,340 for business-type activities.
- * The city's general fund had \$230,863 in total revenues and \$179,762 in total expenditures. Overall, the general fund balance increased by \$51,101 for the year ended December 31, 2015.

Key financial highlights for the year ended December 31, 2014 are as follows:

- * Total net position of the city increased \$38,341 as a result of the current year's operations. Net position of the governmental activities increased \$56,572 and net position of the business-type activities decreased \$18,231.
- * Governmental net position totaled \$831,321 and business-type net position totaled \$387,777.
- * Total revenues from all sources were \$524,673 for governmental activities and \$282,097 for business-type activities.
- * Total expenses were \$410,536 for governmental activities and \$357,892 for business-type activities.
- * The city's general fund had \$239,729 in total revenues and \$214,854 in total expenditures. Overall, the general fund balance increased by \$24,875 for the year ended December 31, 2014.

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, 2015 and 2014?"

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 and sewer.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, sales tax fund and highway fund are considered "major governmental funds". The city's water fund and sewer 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, 2015 and 2014. 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 \$88,143 and \$38,341 for the years ended December 31, 2015 and 2014, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2015, the city's net position of \$1,253,029 is segregated into three separate categories. Net investment in capital assets totals \$400,387. It should be noted that these assets are not available for future spending. The restricted component of net position is \$565,480 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 \$287,161 which includes (\$51,141) 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 \$338,302 is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	724,217	179,566
Capital Assets (net of accumulated depreciation)	243,352	977,963
Total Assets	<u>967,569</u>	<u>1,157,529</u>
Deferred Outflows of Resources	<u>11,506</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities		26,135
Long-Term Liabilities		794,793
Net Pension Liability	52,415	
Total Liabilities	<u>52,415</u>	<u>820,928</u>
Deferred Inflows of Resources	<u>10,232</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	243,352	157,035
Restricted	513,083	52,397
Unrestricted	159,993	127,169
Total Net Position	<u>916,428</u>	<u>336,601</u>
	=====	=====

As of December 31, 2014, the city's net position of \$1,219,098 is segregated into three separate categories. Net investment in capital assets represents 39% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 38% 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 represents 23% of the city's net position and is available to meet the city's ongoing obligations.

Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	572,503	171,967
Capital Assets (net of accumulated depreciation)	258,818	1,008,334
Total Assets	<u>831,321</u>	<u>1,180,301</u>
<u>Liabilities</u>		
Current Liabilities		18,237
Long-Term Liabilities		774,287
Total Liabilities	<u>0</u>	<u>792,524</u>
<u>Net Position</u>		
Net Investment in Capital Assets	258,818	215,810
Restricted	412,788	52,353
Unrestricted	159,715	119,614
Total Net Position	<u>831,321</u>	<u>387,777</u>
	=====	=====

Net Position
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	547,625	177,310
Capital Assets (net of accumulated depreciation)	227,124	1,038,705
Total Assets	<u>774,749</u>	<u>1,216,015</u>
<u>Liabilities</u>		
Current Liabilities		17,483
Long-Term Liabilities		792,524
Total Liabilities	<u>0</u>	<u>810,007</u>
<u>Net Position</u>		
Net Investment in Capital Assets	227,124	228,698
Restricted	415,015	21,033
Unrestricted	132,610	156,277
Total Net Position	<u>774,749</u> =====	<u>406,008</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2015 and 2014. 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, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	90,103	318,019
Operating Grants and Contributions	92,923	
<u>General Revenues:</u>		
Property Taxes	100,360	
Other Taxes	130,835	
Intergovernmental - Unrestricted	100,646	
Interest Earnings and Other Revenue	34,104	145
Total Revenues	<u>548,970</u>	<u>318,164</u>
<u>Expenses</u>		
General Government	116,555	
Public Safety	42,786	
Streets and Public Works	216,580	
Urban and Economic Development	16,441	
Culture and Recreation	14,522	
Other	2,767	
Water		228,887
Sewer		140,453
Total Expenses	<u>409,652</u>	<u>369,340</u>
Net Change in Position	<u>139,319</u> =====	<u>(51,176)</u> =====

Property taxes constituted 12%, other taxes 15%, unrestricted intergovernmental 12%, operating grants and contributions 11%, and charges for services made up 47% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 15%, public safety 5%, streets and public works 28%, and enterprise 47% 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	95,256	281,954
Operating Grants and Contributions	95,669	
<u>General Revenues:</u>		
Property Taxes	93,612	
Other Taxes	106,626	
Intergovernmental - Unrestricted	98,879	
Interest Earnings and Other Revenue	34,630	143
Total Revenues	<u>524,673</u>	<u>282,097</u>
Expenses		
General Government	165,347	
Public Safety	42,646	
Streets and Public Works	175,746	
Culture and Recreation	14,277	
Other	12,520	
Water		228,235
Sewer		129,657
Total Expenses	<u>410,536</u>	<u>357,892</u>
Net Change in Position Before Transfers	<u>114,137</u>	<u>(75,796)</u>
Transfers	<u>(57,565)</u>	<u>57,565</u>
Net Change in Position	<u>56,572</u>	<u>(18,231)</u>
	=====	=====

Property taxes constituted 12%, other taxes 13%, unrestricted intergovernmental 12%, operating grants and contributions 12%, and charges for services made up 47% of the total revenues of all activities of the city for the fiscal year ended December 31, 2014.

General government constituted 22%, public safety 6%, streets and public works 23%, and enterprise 47% of total expenses for all activities during the fiscal year ended December 31, 2014.

Changes in Net Position
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	84,698	283,847
Operating Grants and Contributions	145,964	31,680
<u>General Revenues:</u>		
Property Taxes	119,929	
Other Taxes	120,480	
Intergovernmental - Unrestricted	85,539	
Interest Earnings and Other Revenue	17,743	514
Total Revenues	<u>574,353</u>	<u>316,040</u>
Expenses		
General Government	111,225	
Public Safety	60,813	
Streets and Public Works	214,898	
Culture and Recreation	31,277	
Other	26,221	
Water		248,736
Sewer		147,019
Total Expenses	<u>444,434</u>	<u>395,755</u>
Net Change in Position Before Transfers	<u>129,919</u>	<u>(79,715)</u>
Transfers	<u>(26,245)</u>	<u>26,245</u>
Net Change in Position	<u>103,674</u> =====	<u>(53,470)</u> =====

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, 2015

	<u>Total Cost Year Ended Dec. 31, 2015</u>	<u>Net Cost Year Ended Dec. 31, 2015</u>
General Government	116,555	101,962
Public Safety	42,786	42,438
Streets and Public Works	216,580	63,018
Urban and Economic Development	16,441	16,441
Culture and Recreation	14,522	
Other	2,767	2,767
Total Expenses	<u>409,652</u> =====	<u>226,626</u> =====

Total and Net Cost of Services
As of December 31, 2014

	Total Cost Year Ended <u>Dec. 31, 2014</u>	Net Cost Year Ended <u>Dec. 31, 2014</u>
General Government	165,347	145,955
Public Safety	42,646	42,186
Streets and Public Works	175,746	18,950
Culture and Recreation	14,277	
Other	12,520	12,520
Total Expenses	<u>410,536</u> =====	<u>219,611</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$548,970 and expenditures of \$397,257 for the year ended December 31, 2015. For the year ended December 31, 2014, the city's governmental funds had total revenue of \$524,673 and expenditures of \$442,230. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$199,702. As of December 31, 2014, the unassigned fund balance of the city general fund was \$148,600.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2015 and 2014, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2015 was \$21,794 less than budgeted. Actual expenditures for the year ended December 31, 2015 were under budget by \$29,707. This variance was mainly due to the city overestimating appropriations for general government type expenditures.

Actual revenue for the year ended December 31, 2014 was \$51,039 more than budgeted. This variance was mainly due to the city underestimating collections for state aid payments. Actual expenditures for the year ended December 31, 2014 were over budget by \$27,429. This variance was mainly due to the city underestimating appropriations for general government type expenditures.

CAPITAL ASSETS

As of December 31, 2015 and 2014, the city had \$1,221,315 and \$1,267,152, respectively, invested in capital assets. The following tables show the balances, for governmental activities, as of December 31, 2015, 2014 and 2013.

Table IV

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

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	76,800	975,275
Machinery and Vehicles	166,552	2,688
Total (net of depreciation)	<u>243,352</u>	<u>977,963</u>
	=====	=====

This total represents a decrease of \$45,837 in capital assets from January 1, 2015.

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

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	81,000	1,004,750
Machinery and Vehicles	177,818	3,584
Total (net of depreciation)	<u>258,818</u>	<u>1,008,334</u>
	=====	=====

This total represents an increase of \$1,323 in capital assets from January 1, 2014.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	85,200	1,034,225
Machinery and Vehicles	141,924	4,480
Total (net of depreciation)	<u>227,124</u>	<u>1,038,705</u>
	=====	=====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2015, the city had \$820,928 in outstanding debt of which \$26,135 was due within one year. As of December 31, 2014, the city had \$792,524 in outstanding debt of which \$18,237 was due within one year.

During fiscal year 2015, the city issued one new long-term debt obligation.

Revenue Bonds Payable, in the amount of \$780,000. The city obtained funding to refinance the Improvement Warrant, Series 2009A. These bonds will have a final payment on March 1, 2037.

For a detailed breakdown of the long-term debt, readers are referred to Note 5 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Cash, Cash Equivalents and Investments	724,217.02	179,565.68	903,782.70
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	76,800.00	975,275.00	1,052,075.00
Machinery and Vehicles	166,552.00	2,688.00	169,240.00
 Total Capital Assets	 243,352.00	 977,963.00	 1,221,315.00
Total Assets	967,569.02	1,157,528.68	2,125,097.70
 <u>Deferred Outflows of Resources</u>			
Changes in Resources Related to Pensions	11,506.00		11,506.00
 <u>LIABILITIES:</u>			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable		26,135.00	26,135.00
Due After One Year:			
Revenue Bonds Payable		794,793.00	794,793.00
Net Pension Liability	52,415.00		52,415.00
Total Liabilities	52,415.00	820,928.00	873,343.00
 <u>Deferred Inflows of Resources</u>			
Changes in Resources Related to Pensions	10,232.00		10,232.00
 <u>NET POSITION:</u>			
Net Investment in Capital Assets	243,352.00	157,035.00	400,387.00
Restricted for:			
USDA Reserve		52,397.11	52,397.11
Special Purposes	513,083.26		513,083.26
Unrestricted	159,992.76	127,168.57	287,161.33
Total Net Position	916,428.02	336,600.68	1,253,028.70

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	572,503.24	171,966.59	744,469.83
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	81,000.00	1,004,750.00	1,085,750.00
Machinery and Vehicles	177,818.00	3,584.00	181,402.00
 Total Capital Assets	 258,818.00	 1,008,334.00	 1,267,152.00
Total Assets	831,321.24	1,180,300.59	2,011,621.83
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable		18,237.00	18,237.00
Due After One Year:			
Revenue Bonds Payable		774,287.00	774,287.00
Total Liabilities		792,524.00	792,524.00
NET POSITION:			
Net Investment in Capital Assets	258,818.00	215,810.00	474,628.00
Restricted for:			
USDA Reserve		52,352.94	52,352.94
Special Purposes	412,788.25		412,788.25
Unrestricted	159,714.99	119,613.65	279,328.64
Total Net Position	831,321.24	387,776.59	1,219,097.83

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

CITY OF NEW SALEM
New Salem, North Dakota

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

				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
					Total
<u>Functions/Programs</u>					
<u>Primary Government:</u>					
<u>Governmental Activities:</u>					
General Government	116,555.40	14,593.85		(101,961.55)	(101,961.55)
Public Safety	42,786.31	348.00		(42,438.31)	(42,438.31)
Streets and Public Works	216,579.63	75,161.03	78,400.34	(63,018.26)	(63,018.26)
Urban and Economic Development	16,441.00			(16,441.00)	(16,441.00)
Culture and Recreation	14,522.25		14,522.25		
Other	2,766.93			(2,766.93)	(2,766.93)
Total Governmental Activities	409,651.52	90,102.88	92,922.59	(226,626.05)	(226,626.05)
<u>Business-Type Activities:</u>					
Water	228,887.37	251,736.84			22,849.47
Sewer	140,452.70	66,282.33			(74,170.37)
Total Business-Type Activities	369,340.07	318,019.17		(51,320.90)	(51,320.90)
Total Primary Government	778,991.59	408,122.05	92,922.59	(226,626.05)	(51,320.90)
=====					
<u>General Revenues:</u>					
<u>Taxes:</u>					
Property taxes; levied for general purposes				57,730.30	57,730.30
Property taxes; levied for special purposes				42,629.69	42,629.69
Sales taxes				118,155.12	118,155.12
Telecommunications taxes				3,366.35	3,366.35
Honestead credit taxes				5,709.78	5,709.78
Disabled veteran credit taxes				533.00	533.00
Cigarette taxes				3,070.44	3,070.44
Intergovernmental revenue not restricted to specific programs				100,646.46	100,646.46
Earnings on investments and other revenue				34,103.69	144.99
Total General Revenues				365,944.83	144.99
Change in Net Position				139,318.78	(51,175.91)
Net Position - January 1				831,321.24	387,776.59
Prior Period Adjustment, see Note 9				(54,212.00)	
Net Position - January 1, as Restated				777,109.24	387,776.59
Net Position - December 31				916,428.02	336,600.68
=====					

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2014

	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
Functions/Programs					
Primary Government:					
Governmental Activities:					
General Government	165,346.70	19,391.67		(145,955.03)	(145,955.03)
Public Safety	42,645.67	460.00		(42,185.67)	(42,185.67)
Streets and Public Works	175,746.19	75,404.53	81,391.52	(18,950.14)	(18,950.14)
Culture and Recreation	14,276.99		14,276.99		
Other	12,520.46			(12,520.46)	(12,520.46)
Total Governmental Activities	410,536.01	95,256.20	95,668.51	(219,611.30)	(219,611.30)
Business-Type Activities:					
Water	228,234.84	214,243.44			(13,991.40)
Sewer	129,657.37	67,710.39			(61,946.98)
Total Business-Type Activities	357,892.21	281,953.83			(75,938.38)
Total Primary Government	768,428.22	377,210.03	95,668.51	(219,611.30)	(75,938.38)
=====					
General Revenues:					
Taxes:					
Property taxes; levied for general purposes				57,202.17	57,202.17
Property taxes; levied for special purposes				36,410.21	36,410.21
Sales taxes				90,515.06	90,515.06
Telecommunications taxes				3,366.35	3,366.35
Financial institution taxes				3,819.75	3,819.75
Honestead credit taxes				5,286.67	5,286.67
Disabled veteran credit taxes				519.58	519.58
Cigarette taxes				3,118.56	3,118.56
Intergovernmental revenue not restricted to specific programs				98,879.39	98,879.39
Earnings on investments and other revenue				34,630.22	142.88
Transfers				(57,564.50)	57,564.50
Total General Revenues and Transfers				276,183.46	57,707.38
Change in Net Position				56,572.16	(18,231.00)
Net Position - January 1				774,749.08	406,007.59
Net Position - December 31				831,321.24	387,776.59
=====					

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Funds				
	General	Sales Tax	Highway	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash, Cash Equivalents and Investments	199,701.77	275,674.95	177,731.02	71,109.28	724,217.02
	=====				
FUND BALANCES:					
Restricted for:					
General Government				17,930.30	17,930.30
Streets and Public Works		275,674.95	177,731.02		453,405.97
Emergency Purposes				19,680.75	19,680.75
Auditorium				22,066.24	22,066.24
Assigned to:					
Auditorium				3,066.67	3,066.67
Equipment Purchases				8,365.32	8,365.32
Unassigned	199,701.77				199,701.77
	=====				
Total Fund Balances	199,701.77	275,674.95	177,731.02	71,109.28	724,217.02
	=====				

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

CITY OF NEW SALEM
New Salem, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2014

	Major Funds			Other	Total
	General	Sales Tax	Highway	Governmental Funds	Governmental Funds
ASSETS:					
Cash, Cash Equivalents and Investments	148,600.38	185,765.92	193,610.65	44,526.29	572,503.24
	=====				
FUND BALANCES:					
Restricted for:					
General Government				12,774.39	12,774.39
Streets and Public Works		185,765.92	193,610.65		379,376.57
Emergency Purposes				13,625.39	13,625.39
Auditorium				7,011.90	7,011.90
Assigned to:					
Auditorium				2,760.89	2,760.89
Equipment Purchases				8,353.72	8,353.72
Unassigned	148,600.38				148,600.38
	=====				
Total Fund Balances	148,600.38	185,765.92	193,610.65	44,526.29	572,503.24
	=====				

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

CITY OF NEW SALEM
New Salem, 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		724,217.02
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	661,323.00	
Less Accumulated Depreciation	(417,971.00)	
Net Capital Assets		243,352.00
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	11,506.00	
Total Deferred Inflows of Resources	(10,232.00)	
Net Deferred Outflows/Inflows of Resources		1,274.00
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:		
Net Pension Liability		(52,415.00)
Total Net Position of Governmental Activities		916,428.02
		=====

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

CITY OF NEW SALEM
New Salem, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2014

Total Fund Balances for Governmental Funds		572,503.24
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	668,823.00	
Less Accumulated Depreciation	(410,005.00)	
Net Capital Assets		258,818.00
Total Net Position of Governmental Activities		831,321.24
		=====

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

CITY OF NEW SALEM
New Salem, 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			Other	Total
	General	Sales Tax	Highway	Governmental Funds	Governmental Funds
Revenues:					
Taxes	57,730.30	118,155.12		42,629.69	218,515.11
Licenses, Permits and Fees	14,593.85				14,593.85
Intergovernmental	109,873.32		78,400.34	17,974.96	206,248.62
Charges for Services	19,605.37		55,555.66		75,161.03
Fines and Forfeits	348.00				348.00
Miscellaneous	28,712.64	23.91	4,997.62	369.52	34,103.69
Total Revenues	230,863.48	118,179.03	138,953.62	60,974.17	548,970.30
Expenditures:					
Current:					
General Government	83,802.15			31,624.25	115,426.40
Public Safety	42,786.31				42,786.31
Streets and Public Works	38,651.38	11,829.00	154,833.25		205,313.63
Urban and Economic Development		16,441.00			16,441.00
Culture and Recreation	14,522.25				14,522.25
Other				2,766.93	2,766.93
Total Expenditures	179,762.09	28,270.00	154,833.25	34,391.18	397,256.52
Net Change in Fund Balances	51,101.39	89,909.03	(15,879.63)	26,582.99	151,713.78
Fund Balance - January 1	148,600.38	185,765.92	193,610.65	44,526.29	572,503.24
Fund Balance - December 31	199,701.77	275,674.95	177,731.02	71,109.28	724,217.02

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2014

	Major Funds			Other	Total
	General	Sales Tax	Highway	Governmental Funds	Governmental Funds
Revenues:					
Taxes	57,202.17	90,515.06		36,410.21	184,127.44
Licenses, Permits and Fees	19,391.67				19,391.67
Intergovernmental	111,595.90		81,391.52	17,671.39	210,658.81
Charges for Services	24,088.37		51,316.16		75,404.53
Fines and Forfeits	460.00				460.00
Miscellaneous	26,990.87	27.25	1,595.90	6,016.20	34,630.22
Total Revenues	239,728.98	90,542.31	134,303.58	60,097.80	524,672.67
Expenditures:					
Current:					
General Government	129,818.48			31,328.22	161,146.70
Public Safety	42,645.67				42,645.67
Streets and Public Works	28,112.39	18,078.92	118,288.88		164,480.19
Culture and Recreation	14,276.99				14,276.99
Other				12,520.46	12,520.46
Capital Outlay		23,580.00	23,580.00		47,160.00
Total Expenditures	214,853.53	41,658.92	141,868.88	43,848.68	442,230.01
Excess (Deficiency) of Revenues Over Expenditures	24,875.45	48,883.39	(7,565.30)	16,249.12	82,442.66
Other Financing (Uses):					
Transfers Out		(57,564.50)			(57,564.50)
Net Change in Fund Balances	24,875.45	(8,681.11)	(7,565.30)	16,249.12	24,878.16
Fund Balance - January 1	123,724.93	194,447.03	201,175.95	28,277.17	547,625.08
Fund Balance - December 31	148,600.38	185,765.92	193,610.65	44,526.29	572,503.24

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

CITY OF NEW SALEM
New Salem, 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	151,713.78
--	------------

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	(15,466.00)	(15,466.00)

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 Decrease to Pension Expense	3,071.00
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Change in Net Position of Governmental Activities	139,318.78
	=====

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

CITY OF NEW SALEM
New Salem, 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, 2014

Net Change in Fund Balances - Total Governmental Funds	24,878.16
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	47,160.00	
Current Year Depreciation Expense	(15,466.00)	31,694.00
		<hr/>
Change in Net Position of Governmental Activities		56,572.16
		=====

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Enterprise Funds		Total Enterprise Funds
	Water	Sewer	
ASSETS			
<u>Current Assets:</u>			
Cash and Cash Equivalents	109,266.61	70,299.07	179,565.68
<u>Noncurrent Assets:</u>			
Capital Assets (net of accumulated depreciation)			
Buildings and Infrastructure		975,275.00	975,275.00
Machinery and Vehicles	2,688.00		2,688.00
Total Noncurrent assets	2,688.00	975,275.00	977,963.00
Total Assets	111,954.61	1,045,574.07	1,157,528.68
LIABILITIES			
<u>Current Liabilities:</u>			
Revenue Bonds Payable		26,135.00	26,135.00
<u>Noncurrent Liabilities:</u>			
Revenue Bonds Payable		794,793.00	794,793.00
Total Liabilities		820,928.00	820,928.00
NET POSITION			
Net Investment in Capital Assets	2,688.00	154,347.00	157,035.00
Restricted for:			
USDA Reserve		52,397.11	52,397.11
Unrestricted	109,266.61	17,901.96	127,168.57
Total Net Position	111,954.61	224,646.07	336,600.68

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2014

	Major Enterprise Funds		
	Water	Sewer	Total Enterprise Funds
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and Cash Equivalents	85,470.73	86,495.86	171,966.59
<u>Noncurrent Assets:</u>			
Capital Assets (net of accumulated depreciation)			
Buildings and Infrastructure		1,004,750.00	1,004,750.00
Machinery and Vehicles	3,584.00		3,584.00
Total Noncurrent assets	3,584.00	1,004,750.00	1,008,334.00
Total Assets	89,054.73	1,091,245.86	1,180,300.59
=====			
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Revenue Bonds Payable		18,237.00	18,237.00
<u>Noncurrent Liabilities:</u>			
Revenue Bonds Payable		774,287.00	774,287.00
Total Liabilities		792,524.00	792,524.00
<u>NET POSITION</u>			
Net Investment in Capital Assets	3,584.00	212,226.00	215,810.00
Restricted for:			
USDA Reserve		52,352.94	52,352.94
Unrestricted	85,470.73	34,142.92	119,613.65
Total Net Position	89,054.73	298,721.86	387,776.59
=====			

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Enterprise Funds		Total Enterprise Funds
	Water	Sewer	
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Water Charges	251,736.84		251,736.84
Sewer Charges		66,282.33	66,282.33
Total Operating Revenues	251,736.84	66,282.33	318,019.17
<u>Operating Expenses:</u>			
Salaries and Benefits	31,778.60	33,488.38	65,266.98
Group Insurance	1,710.00		1,710.00
Legal Fees		4,000.00	4,000.00
Utilities	1,100.90	7,549.15	8,650.05
Printing & Postage	1,049.00	1,049.00	2,098.00
Gas & Oil	166.20	166.19	332.39
Maintenance & Repairs	9,895.45	16,000.44	25,895.89
Lab Services	408.42	600.42	1,008.84
Travel & Training	9.77	9.78	19.55
Water Purchases	179,503.79		179,503.79
Miscellaneous	2,369.24	3,466.24	5,835.48
Depreciation	896.00	29,475.00	30,371.00
Total Operating Expenses	228,887.37	95,804.60	324,691.97
Operating Income (Loss)	22,849.47	(29,522.27)	(6,672.80)
<u>Non-Operating Revenues (Expenses):</u>			
Interest Income	50.41	94.58	144.99
Discount on Bonds Issued		(11,628.10)	(11,628.10)
Interest Payments		(33,020.00)	(33,020.00)
Total Non-Operating Revenues (Expenses)	50.41	(44,553.52)	(44,503.11)
Change in Net Position	22,899.88	(74,075.79)	(51,175.91)
Net Position - January 1	89,054.73	298,721.86	387,776.59
Net Position - December 31	111,954.61	224,646.07	336,600.68
	=====	=====	=====

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2014

	Major Enterprise Funds		
	Water	Sewer	Total Enterprise Funds
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Water Charges	214,243.44		214,243.44
Sewer Charges		67,710.39	67,710.39
Total Operating Revenues	214,243.44	67,710.39	281,953.83
<u>Operating Expenses:</u>			
Salaries and Benefits	37,752.62	38,892.37	76,644.99
Group Insurance	1,710.00	570.00	2,280.00
Utilities	941.69	6,781.88	7,723.57
Printing & Postage	2,178.91	2,178.94	4,357.85
Audit Fees	1,066.25	1,066.25	2,132.50
Gas & Oil	845.75	836.78	1,682.53
Maintenance & Repairs	25,650.28	12,106.42	37,756.70
Lab Services		499.42	499.42
Travel & Training	20.00		20.00
Water Purchases	155,515.37		155,515.37
Miscellaneous	1,657.97	2,243.31	3,901.28
Depreciation	896.00	29,475.00	30,371.00
Total Operating Expenses	228,234.84	94,650.37	322,885.21
Operating Income (Loss)	(13,991.40)	(26,939.98)	(40,931.38)
<u>Non-Operating Revenues (Expenses):</u>			
Interest Income	71.45	71.43	142.88
Interest Payments		(35,007.00)	(35,007.00)
Total Non-Operating Revenues (Expenses)	71.45	(34,935.57)	(34,864.12)
Income (Loss) Before Transfers	(13,919.95)	(61,875.55)	(75,795.50)
Transfers In		57,564.50	57,564.50
Change in Net Position	(13,919.95)	(4,311.05)	(18,231.00)
Net Position - January 1	102,974.68	303,032.91	406,007.59
Net Position - December 31	89,054.73	298,721.86	387,776.59
	=====		

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Enterprise Funds		
	Water	Sewer	Total Enterprise Funds
<u>Cash flows from operating activities:</u>			
Receipts from customers	251,736.84	66,282.33	318,019.17
Payments to suppliers and employees	(227,991.37)	(66,329.60)	(294,320.97)
Net cash provided (used) by operating activities	23,745.47	(47.27)	23,698.20
<u>Cash flows from capital and related financing activities:</u>			
Revenue bonds issued		780,000.00	780,000.00
Discount on bonds issued		(11,628.10)	(11,628.10)
Principal payments		(751,596.00)	(751,596.00)
Interest payments		(33,020.00)	(33,020.00)
Net cash provided (used) by capital and related financing activities		(16,244.10)	(16,244.10)
<u>Cash flows from investing activities:</u>			
Interest income	50.41	94.58	144.99
Net increase (decrease) in cash and cash equivalents	23,795.88	(16,196.79)	7,599.09
Cash and cash equivalents, January 1	85,470.73	86,495.86	171,966.59
Cash and cash equivalents, December 31	109,266.61	70,299.07	179,565.68
=====			
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>			
Operating income (loss)	22,849.47	(29,522.27)	(6,672.80)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	896.00	29,475.00	30,371.00
Net cash provided (used) by operating activities	23,745.47	(47.27)	23,698.20
=====			

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2014

	Major Enterprise Funds		Total Enterprise Funds
	Water	Sewer	
<u>Cash flows from operating activities:</u>			
Receipts from customers	214,243.44	67,710.39	281,953.83
Payments to suppliers and employees	(227,338.84)	(65,175.37)	(292,514.21)
Net cash provided (used) by operating activities	(13,095.40)	2,535.02	(10,560.38)
<u>Cash flows from noncapital financing activities:</u>			
Transfers in		57,564.50	57,564.50
<u>Cash flows from capital and related financing activities:</u>			
Principal payments		(17,483.00)	(17,483.00)
Interest payments		(35,007.00)	(35,007.00)
Net cash provided (used) by capital and related financing activities		(52,490.00)	(52,490.00)
<u>Cash flows from investing activities:</u>			
Interest income	71.45	71.43	142.88
Net increase (decrease) in cash and cash equivalents	(13,023.95)	7,680.95	(5,343.00)
Cash and cash equivalents, January 1	98,494.68	78,814.91	177,309.59
Cash and cash equivalents, December 31	85,470.73	86,495.86	171,966.59
=====			
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>			
Operating (loss)	(13,991.40)	(26,939.98)	(40,931.38)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	896.00	29,475.00	30,371.00
Net cash provided (used) by operating activities	(13,095.40)	2,535.02	(10,560.38)
=====			

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

CITY OF NEW SALEM
New Salem, North Dakota

Notes to the Financial Statements
December 31, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New Salem 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 Salem 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 Salem. 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.

Sales Tax Fund. This fund accounts for the city's sales tax collections, which are used for the betterment and improvement of the city.

Highway Fund. This fund accounts for the accumulation of the highway distribution tax to be used for street repairs and maintenance.

The city reports the following major enterprise funds:

Water Fund. This fund accounts for the activities of the city's water distribution system.

Sewer Fund. This fund accounts for the activities of the city's sewage collection system.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

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

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings	100 years
Machinery and Vehicles	10 to 20 years

F. Compensated Absences

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

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

G. Long-Term Obligations

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

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

H. Pensions

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 reporting framework (SRF) 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, 2015 the city's carrying amount of deposits was \$903,783 and the bank balance was \$908,992. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$658,992 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2014 the city's carrying amount of deposits was \$744,470 and the bank balance was \$749,628. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$499,628 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2015 the city held certificates of deposit in the amount of \$100,122, which are all considered deposits.

At December 31, 2014 the city held certificates of deposit in the amount of \$99,862, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

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

	<u>2015</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
Capital assets				
being depreciated:				
Buildings and				
Infrastructure	420,000			420,000
Machinery and				
Vehicles	248,823		7,500	241,323
Total	668,823		7,500	661,323
Less accumulated				
depreciation for:				
Buildings and				
Infrastructure	339,000	4,200		343,200
Machinery and				
Vehicles	71,005	11,266	7,500	74,771
Total	410,005	15,466	7,000	417,971
Governmental Activities				
Capital Assets, Net	258,818	(15,466)	-0-	243,352
	=====	=====	=====	=====

<u>2014</u>				
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	420,000			420,000
Machinery and Vehicles	201,663	47,160		248,823
Total	<u>621,663</u>	<u>47,160</u>		<u>668,823</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	334,800	4,200		339,000
Machinery and Vehicles	59,739	11,266		71,005
Total	<u>394,539</u>	<u>15,466</u>		<u>410,005</u>
Governmental Activities Capital Assets, Net	<u>227,124</u>	<u>31,694</u>	<u>-0-</u>	<u>258,818</u>
	=====	=====	=====	=====

<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:				
Capital assets being depreciated:				
Buildings and Infrastructure	1,179,000			1,179,000
Machinery and Vehicles	8,960			8,960
Total	<u>1,187,960</u>			<u>1,187,960</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	174,250	29,475		203,725
Machinery and Vehicles	5,376	896		6,272
Total	<u>179,626</u>	<u>30,371</u>		<u>209,997</u>
Business-type Activities Capital Assets, Net	<u>1,008,334</u>	<u>(30,371)</u>	<u>-0-</u>	<u>977,963</u>
	=====	=====	=====	=====

2014

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,179,000			1,179,000
Machinery and Vehicles	8,960			8,960
Total	<u>1,187,960</u>			<u>1,187,960</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	144,775	29,475		174,250
Machinery and Vehicles	4,480	896		5,376
Total	<u>149,255</u>	<u>30,371</u>		<u>179,626</u>
Business-type Activities Capital Assets, Net	<u>1,038,705</u>	<u>(30,371)</u>	<u>-0-</u>	<u>1,008,334</u>
	=====	=====	=====	=====

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

	<u>2015</u>	<u>2014</u>
<u>Governmental Activities:</u>		
General Government	4,200	4,200
Streets and Public Works	11,266	11,266
Total	<u>15,466</u>	<u>15,466</u>
	=====	=====
<u>Business-type Activities:</u>		
Water	896	896
Sewer	29,475	29,475
Total	<u>30,371</u>	<u>30,371</u>
	=====	=====

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2015 and 2014, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Business-type Activities (Proprietary Funds):

<u>2015</u>					
	<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 Payable	792,524	780,000	751,596	820,928	26,135
	=====	=====	=====	=====	=====
<u>2014</u>					
	<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 Payable	810,007	-0-	17,483	792,524	18,237
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2015 consists of the following:

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, 2015 are as follows:

\$47,000 Improvement Warrant, Series 2009B, due in annual installments of \$2,516 through November 1, 2038 and a final payment of \$2,480 on November 1, 2039; payments include interest at 3.375%.	40,928.00
\$780,000 Refunding Bonds, Series 2015, due in annual installments of \$25,000 to \$45,000 through March 1, 2037; interest is at 1.5% to 4%.	780,000.00
Total Revenue Bonds	820,928.00
	=====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	26,135.00	26,818.50
2017	26,173.00	26,405.50
2018	26,213.00	25,990.50
2019	26,254.00	25,574.50
2020	26,296.00	25,032.50
2021-2025	142,167.00	114,738.00
2026-2030	163,462.00	91,221.00
2031-2035	199,989.00	57,193.00
2036-2039	184,239.00	15,093.00
Total	820,928.00	408,066.50
	=====	=====

Note 6 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2014:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Sewer Operating	26,244.50	
Sales Tax		26,244.50
To subsidize debt service payments.		
USDA Sewer Reserve	31,320.00	
Sales Tax		31,320.00
To set aside funds per USDA reserve.		

Note 7 RISK MANAGEMENT

The City of New Salem 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 \$271,600 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 \$243,000 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 8 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). The annual 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.

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

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.

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

At December 31, 2015, the City of New Salem reported a liability of \$52,415 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 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, 2014 the city's proportion was .008258 percent.

For the year ended December 31, 2015 the city recognized pension expense of \$5,186. At December 31, 2015 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	1,699	
Net difference between projected and actual earnings on pension plan investments		10,232
City contributions subsequent to the measurement date (see below)	9,807	
Total	11,506	10,232

\$9,807 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 June 30, 2015.

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: -----	
2016	(2,196)
2017	(2,196)
2018	(2,196)
2019	(2,196)
2020	253
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 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 with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Equity Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	5%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, 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, 2014. 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, 2014.

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	80,840	52,415	28,648

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 9 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 its deferred outflows of resources at July 1, 2014.

CITY OF NEW SALEM
New Salem, 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)
Revenues:				
Taxes	119,182.74	119,182.74	57,730.30	(61,452.44)
Licenses, Permits and Fees	14,985.00	14,985.00	14,593.85	(391.15)
Intergovernmental	90,000.00	90,000.00	109,873.32	19,873.32
Charges for Services	19,600.00	19,600.00	19,605.37	5.37
Fines and Forfeits	580.00	580.00	348.00	(232.00)
Miscellaneous	8,310.00	8,310.00	28,712.64	20,402.64
Total Revenues	252,657.74	252,657.74	230,863.48	(21,794.26)
Expenditures:				
Current:				
General Government	115,360.00	115,360.00	83,802.15	31,557.85
Public Safety	46,090.00	46,090.00	42,786.31	3,303.69
Streets and Public Works	31,518.75	31,518.75	38,651.38	(7,132.63)
Culture and Recreation	16,500.00	16,500.00	14,522.25	1,977.75
Total Expenditures	209,468.75	209,468.75	179,762.09	29,706.66
Net Change in Fund Balances	43,188.99	43,188.99	51,101.39	7,912.40
Fund Balance - January 1	148,600.38	148,600.38	148,600.38	
Fund Balance - December 31	191,789.37	191,789.37	199,701.77	7,912.40

CITY OF NEW SALEM
New Salem, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	77,839.83	77,839.83	57,202.17	(20,637.66)
Licenses, Permits and Fees	13,640.00	13,640.00	19,391.67	5,751.67
Intergovernmental	73,800.00	73,800.00	111,595.90	37,795.90
Charges for Services	15,500.00	15,500.00	24,088.37	8,588.37
Fines and Forfeits	700.00	700.00	460.00	(240.00)
Miscellaneous	7,210.00	7,210.00	26,990.87	19,780.87
Total Revenues	188,689.83	188,689.83	239,728.98	51,039.15
Expenditures:				
Current:				
General Government	112,750.00	112,750.00	129,818.48	(17,068.48)
Public Safety	39,800.00	39,800.00	42,645.67	(2,845.67)
Streets and Public Works	23,875.00	23,875.00	28,112.39	(4,237.39)
Culture and Recreation	11,000.00	11,000.00	14,276.99	(3,276.99)
Total Expenditures	187,425.00	187,425.00	214,853.53	(27,428.53)
Net Change in Fund Balances	1,264.83	1,264.83	24,875.45	23,610.62
Fund Balance - January 1	123,724.93	123,724.93	123,724.93	
Fund Balance - December 31	124,989.76	124,989.76	148,600.38	23,610.62

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	72,000.00	72,000.00	118,155.12	46,155.12
Miscellaneous	23.00	23.00	23.91	0.91
Total Revenues	72,023.00	72,023.00	118,179.03	46,156.03
<u>Expenditures:</u>				
Current:				
Streets and Public Works	81,245.00	81,245.00	11,829.00	69,416.00
Urban and Economic Development			16,441.00	(16,441.00)
Total Expenditures	81,245.00	81,245.00	28,270.00	52,975.00
Net Change in Fund Balances	(9,222.00)	(9,222.00)	89,909.03	99,131.03
Fund Balance - January 1	185,765.92	185,765.92	185,765.92	
Fund Balance - December 31	176,543.92	176,543.92	275,674.95	99,131.03

CITY OF NEW SALEM
New Salem, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales Tax Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	118,000.00	118,000.00	90,515.06	(27,484.94)
Miscellaneous	21.00	21.00	27.25	6.25
Total Revenues	118,021.00	118,021.00	90,542.31	(27,478.69)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	132,588.00	132,588.00	18,078.92	114,509.08
Capital Outlay			23,580.00	(23,580.00)
Total Expenditures	132,588.00	132,588.00	41,658.92	90,929.08
Excess (Deficiency) of Revenues Over Expenditures	(14,567.00)	(14,567.00)	48,883.39	63,450.39
<u>Other Financing (Uses):</u>				
Transfers Out			(57,564.50)	(57,564.50)
Net Change in Fund Balances	(14,567.00)	(14,567.00)	(8,681.11)	5,885.89
Fund Balance - January 1	194,447.03	194,447.03	194,447.03	
Fund Balance - December 31	179,880.03	179,880.03	185,765.92	5,885.89

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	94,000.00	94,000.00	78,400.34	(15,599.66)
Charges for Services	48,000.00	48,000.00	55,555.66	7,555.66
Miscellaneous	7.50	7.50	4,997.62	4,990.12
Total Revenues	142,007.50	142,007.50	138,953.62	(3,053.88)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	162,115.00	162,115.00	154,833.25	7,281.75
Net Change in Fund Balances	(20,107.50)	(20,107.50)	(15,879.63)	4,227.87
Fund Balance - January 1	193,610.65	193,610.65	193,610.65	
Fund Balance - December 31	173,503.15	173,503.15	177,731.02	4,227.87

CITY OF NEW SALEM
New Salem, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Highway Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	100,000.00	100,000.00	81,391.52	(18,608.48)
Charges for Services	50,000.00	50,000.00	51,316.16	1,316.16
Miscellaneous	7.50	7.50	1,595.90	1,588.40
Total Revenues	150,007.50	150,007.50	134,303.58	(15,703.92)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	134,030.00	134,030.00	118,288.88	15,741.12
Capital Outlay	8,000.00	8,000.00	23,580.00	(15,580.00)
Total Expenditures	142,030.00	142,030.00	141,868.88	161.12
Net Change in Fund Balances	7,977.50	7,977.50	(7,565.30)	(15,542.80)
Fund Balance - January 1	201,175.95	201,175.95	201,175.95	
Fund Balance - December 31	209,153.45	209,153.45	193,610.65	(15,542.80)

CITY OF NEW SALEM
New Salem, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2015 and 2014

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 and special revenue 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, 2015 and 2014.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
General Fund		27,428.53
<u>Special Revenue Funds</u>		
Social Security		2,505.99
Advertising	833.67	
Auditorium		2,520.46

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	2015

City's proportion of the net pension liability	0.008258%
City's proportionate share of the net pension liability	52,415
City's covered-employee payroll	96,553
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	54.29%
Plan fiduciary net position as a percentage of the total pension liability	77.7%

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

	2015

Statutorily required contribution	6,411
Contributions in relation to the statutorily required contribution	(6,411)
Contribution deficiency (excess)	0
City's covered-employee payroll	96,553
Contributions as a percentage of covered-employee payroll	6.64%

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

CITY OF NEW SALEM
New Salem, 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	148,600.38	230,863.48			179,762.09	199,701.77
Sales Tax	185,765.92	118,179.03			28,270.00	275,674.95
Highway	193,610.65	138,953.62			154,833.25	177,731.02
Total Major Governmental Funds	527,976.95	487,996.13			362,865.34	653,107.74
<u>Non-Major Governmental Funds</u>						
Social Security	6,445.45	14,703.93			11,301.73	9,847.65
Advertising	4,012.12	4,807.63			4,433.67	4,386.08
Emergency	13,625.39	6,453.21			397.85	19,680.75
Auditorium	7,011.90	17,423.42			2,369.08	22,066.24
Auditorium Set-Aside	2,760.89	305.78				3,066.67
Insurance Reserve	2,207.74	9,388.95			9,275.21	2,321.48
Equipment	8,353.72	11.60				8,365.32
Retirement	109.08	7,879.65			6,613.64	1,375.09
Total Non-Major Governmental Funds	44,526.29	60,974.17			34,391.18	71,109.28
Total Governmental Funds	572,503.24	548,970.30			397,256.52	724,217.02
<u>Major Enterprise Funds</u>						
Water	85,470.73	251,787.25			227,991.37	109,266.61
Sewer:						
Operating	34,142.92	834,704.64			850,945.60	17,901.96
USDA Sewer Reserve	52,352.94	44.17				52,397.11
Total Major Enterprise Funds	171,966.59	1,086,536.06			1,078,936.97	179,565.68
Total All Funds	744,469.83	1,635,506.36			1,476,193.49	903,782.70

CITY OF NEW SALEM
New Salem, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2014

	Balance 1-1-14	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-14
<u>Major Governmental Funds</u>						
General Fund	123,724.93	239,728.98			214,853.53	148,600.38
Sales Tax	194,447.03	90,542.31		57,564.50	41,658.92	185,765.92
Highway	201,175.95	134,303.58			141,868.88	193,610.65
Total Major Governmental Funds	519,347.91	464,574.87		57,564.50	398,381.33	527,976.95
<u>Non-Major Governmental Funds</u>						
Social Security	5,937.56	13,013.88			12,505.99	6,445.45
Advertising	3,514.73	3,952.32			3,454.93	4,012.12
Emergency	7,855.77	5,769.62				13,625.39
Auditorium	(897.44)	20,429.80			12,520.46	7,011.90
Auditorium Set-Aside	2,754.35	6.54				2,760.89
Insurance Reserve	2,083.64	8,363.59			8,239.49	2,207.74
Equipment	8,340.55	13.17				8,353.72
Retirement	(1,311.99)	8,548.88			7,127.81	109.08
Total Non-Major Governmental Funds	28,277.17	60,097.80			43,848.68	44,526.29
Total Governmental Funds	547,625.08	524,672.67		57,564.50	442,230.01	572,503.24
<u>Major Enterprise Funds</u>						
Water	98,494.68	214,314.89			227,338.84	85,470.73
Sewer:						
Operating	57,336.51	67,781.82	26,244.50		117,219.91	34,142.92
USDA Sewer Reserve	21,032.94		31,320.00			52,352.94
Lagoon/Sewer Project	445.46				445.46	
Total Major Enterprise Funds	177,309.59	282,096.71	57,564.50		345,004.21	171,966.59
Total All Funds	724,934.67	806,769.38	57,564.50	57,564.50	787,234.22	744,469.83

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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 Salem
New Salem, 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 Salem, New Salem, North Dakota, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated June 10, 2016.

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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

The city's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the 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 Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 10, 2016

CITY OF NEW SALEM
New Salem, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2015 and 2014

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

* Material weakness(es) identified? ☐ Yes ☒ No

* Significant deficiency(ies) identified? ☒ Yes ☐ None Reported

Noncompliance Material to financial statements noted? ☐ Yes ☒ No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

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

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

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

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

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2015 and 2014 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.

Rath & Mehrer

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Governing Board
City of New Salem
New Salem, North Dakota

Our audits of the financial records of the City of New Salem, New Salem, North Dakota, for the years ended December 31, 2015 and 2014 have disclosed opportunities for improvements in the operations of the city. Items which we believe should be brought to your attention are set forth below:

* * * * *

EMERGENCY FUND

During the course of the audits, we noted that the city's emergency fund balance has exceeded the limitation set by NDCC section 57-15-48. The emergency fund balance is limited to 5 mills or 5 dollars per capita, whichever is greater. We recommend that the city discontinue the levy for the emergency fund until the fund balance falls below this limitation.

* * * * *

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the city, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the city during our audits.

Rath and Mehrer

Rath and Mehrer, P.C.

June 10, 2016