



Financial Statements
December 31, 2015

City of Valley City, North Dakota

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City of Valley City, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2015

<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Robert Werkhoven (retired 5/12/2016)	President of City Commission	6/30/2018
Matthew Pedersen	Vide President of City Commission	6/30/2018
Dewey Magnuson	City Commissioner	6/30/2018
Madeline Luke	City Commissioner	6/30/2016
Mary Lee Nielson	City Commissioner	6/30/2016
<u>Administration</u>		
David C. Schelkoph	City Administrator	
Avis Richter	Finance Director	
Gary Jacobson	Accountant/Office Manager	



Independent Auditor's Report

The Board of City Commissioners
City of Valley City, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2015 and the respective changes in financial position and, where applicable, cash flows thereof and the General Fund Budgetary Schedule of the City for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Management has omitted a management's discussion and analysis that U.S. generally accepted accounting principles requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting to place the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The listing of elected and appointed officials and combining and individual fund schedules are presented for purpose of additional analysis and are not a required part of the financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 25, 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, 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 the 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.

Eide Bailly LLP

Fargo, North Dakota
July 25, 2016

City of Valley City, North Dakota
Statement of Net Position
December 31, 2015

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,596,158	\$ 3,966,068	\$ 11,562,226
Restricted cash	-	356,619	356,619
Receivables			
Accounts	940,269	683,457	1,623,726
Unbilled revenues	14,282	450,162	464,444
Interest	-	310	310
Property taxes	21,015	-	21,015
Special assessments	6,345,717	-	6,345,717
Due from other governmental units	642,895	25,291	668,186
Interfund balances	912,644	(912,644)	-
Prepaid items	2,431	56,186	58,617
Inventory	-	486,806	486,806
Unearned debits	-	4,658	4,658
Capital assets			
Land	173,800	424,693	598,493
Construction in progress	8,627,956	176,501	8,804,457
Infrastructure	30,871,729	-	30,871,729
Buildings and improvements	2,095,536	24,967,690	27,063,226
Machinery and equipment	1,004,015	7,143,980	8,147,995
Vehicles	3,035,555	-	3,035,555
Mains and lines	-	41,381,671	41,381,671
Less accumulated depreciation	(7,721,644)	(30,544,762)	(38,266,406)
Total assets	<u>54,562,358</u>	<u>48,666,686</u>	<u>103,229,044</u>
Liabilities			
Accounts payable	1,757,669	625,753	2,383,422
Accrued interest payable	101,436	11,162	112,598
Other liabilities	54,634	93,861	148,495
Long-term liabilities			
Due within one year	1,302,837	394,293	1,697,130
Due in more than one year	12,255,705	2,001,000	14,256,705
Total liabilities	<u>15,472,281</u>	<u>3,126,069</u>	<u>18,598,350</u>
Net position			
Net investment in capital assets	24,650,258	41,177,306	65,827,564
Restricted	7,067,161	356,619	7,423,780
Unrestricted	7,372,658	4,006,692	11,379,350
Total net position	<u>\$ 39,090,077</u>	<u>\$ 45,540,617</u>	<u>\$ 84,630,694</u>

City of Valley City, North Dakota
Statement of Activities
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 2,060,935	\$ 3,823,354	\$ -	\$ -	\$ 1,762,419	\$ -	\$ 1,762,419
Public safety	9,297,468	3,106,258	7,813,835	-	1,622,625	-	1,622,625
Public works	281,428	763,624	-	-	482,196	-	482,196
Culture and recreation	207,563	-	452,197	-	244,634	-	244,634
Economic development	157,832	-	-	-	(157,832)	-	(157,832)
Interest on long-term debt	356,205	-	-	-	(356,205)	-	(356,205)
Total governmental activities	<u>12,361,431</u>	<u>7,693,236</u>	<u>8,266,032</u>	<u>-</u>	<u>3,597,837</u>	<u>-</u>	<u>3,597,837</u>
Business-type activities							
Electric	6,582,276	7,499,345	-	-	-	917,069	917,069
Water	2,203,916	1,276,083	-	-	-	(927,833)	(927,833)
Sewer facility	735,330	610,385	-	-	-	(124,945)	(124,945)
Garbage	991,729	1,040,071	-	-	-	48,342	48,342
Total business-type activities	<u>10,513,251</u>	<u>10,425,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,367)</u>	<u>(87,367)</u>
Total government	<u>\$ 22,874,682</u>	<u>\$ 18,119,120</u>	<u>\$ 8,266,032</u>	<u>\$ -</u>	<u>3,597,837</u>	<u>(87,367)</u>	<u>3,510,470</u>
General revenues							
Property taxes and special assessments					2,143,607	-	2,143,607
Sales and use tax					1,548,284	-	1,548,284
State aid					1,103,811	-	1,103,811
Unrestricted investment earnings					18,463	11,293	29,756
Miscellaneous					129,571	44,010	173,581
Transfers					(2,133,381)	2,133,381	-
Total general revenue and transfers					<u>2,810,355</u>	<u>2,188,684</u>	<u>4,999,039</u>
Change in net position					6,408,192	2,101,317	8,509,509
Net position - beginning					<u>32,681,885</u>	<u>43,439,300</u>	<u>76,121,185</u>
Net position - ending					<u>\$ 39,090,077</u>	<u>\$ 45,540,617</u>	<u>\$ 84,630,694</u>

City of Valley City, North Dakota
Governmental Funds
Balance Sheet
December 31, 2015

	General	9th Avenue Northwest	City Sales Tax Economic	Paving Projects	Infrastructure Renewal & Replacement	Watermain Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets									
Cash and cash equivalents	\$ 1,686,066	\$ 107,629	\$ 1,411,502	\$ -	\$ 1,358,513	\$ -	\$ 2,704,482	\$ 327,966	\$ 7,596,158
Due from other funds	1,635,903	-	-	-	946,164	-	-	-	2,582,067
Receivables									
Accounts	906,313	-	-	-	28,409	-	-	5,547	940,269
Taxes receivable - delinquent	-	-	-	-	-	-	-	3,141	3,141
Unbilled revenues	-	-	-	-	14,282	-	-	-	14,282
Property taxes	17,246	-	-	-	-	-	628	-	17,874
Special assessments									
Current	101,641	-	-	-	-	-	449,558	2,344	553,543
Delinquent	2,387	-	-	-	-	-	25,217	1,865	29,469
Deferred	447,871	-	-	-	-	-	5,307,334	7,500	5,762,705
Interfund	1,200	-	-	-	-	-	480,918	-	482,118
Due from other governmental units	150,538	-	26,131	-	148,358	-	93,161	224,707	642,895
Prepaid items	2,431	-	-	-	-	-	-	-	2,431
Total assets	\$ 4,951,596	\$ 107,629	\$ 1,437,633	\$ -	\$ 2,495,726	\$ -	\$ 9,061,298	\$ 573,070	\$ 18,626,952
Liabilities and Fund Balance									
Liabilities									
Accounts payable	\$ 1,359,781	\$ 107,842	\$ 17,250	\$ 57,793	\$ -	\$ 117,687	\$ -	\$ 97,716	\$ 1,757,669
Due to other funds	358,892	-	-	520,682	-	671,110	34,502	566,355	2,151,541
Other liabilities	54,634	-	-	-	-	-	-	-	54,634
Total liabilities	1,772,907	107,842	17,250	578,475	-	788,797	34,502	664,071	3,963,844
Deferred Inflows of Resources									
Unavailable revenue-property taxes	17,246	-	-	-	-	-	628	3,141	21,015
Unavailable revenue-special assessments	553,099	-	-	-	-	-	6,263,028	11,709	6,827,836
Total deferred inflows of resources	570,345	-	-	-	-	-	6,263,656	14,850	6,848,851
Fund Balance (Deficit)									
Nonspendable									
Prepaid items	2,431	-	-	-	-	-	-	-	2,431
Restricted for:									
Debt service	-	-	-	-	-	-	2,763,140	-	2,763,140
Emergency services	-	-	-	-	-	-	-	37,007	37,007
Community development	-	-	1,420,383	-	-	-	-	350,905	1,771,288
Infrastructure	-	-	-	-	2,495,726	-	-	-	2,495,726
Assigned	50,000	-	-	-	-	-	-	-	50,000
Unassigned	2,555,913	(213)	-	(578,475)	-	(788,797)	-	(493,763)	694,665
Total fund balance (deficit)	2,608,344	(213)	1,420,383	(578,475)	2,495,726	(788,797)	2,763,140	(105,851)	7,814,257
Total liabilities, deferred inflows of resources, and fund balance (deficit)	\$ 4,951,596	\$ 107,629	\$ 1,437,633	\$ -	\$ 2,495,726	\$ -	\$ 9,061,298	\$ 573,070	\$ 18,626,952

City of Valley City, North Dakota
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Position
 December 31, 2015

Total Fund Balances - Governmental Funds	\$ 7,814,257
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,086,947
Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are deferred in the funds.	6,848,851
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:	
General obligation bonds	(45,000)
Special assessment bonds	(10,391,809)
Sales tax revenue bonds	(2,550,000)
Capital lease payable	(449,880)
Compensated absences	(121,853)
Accrued interest	(101,436)
Total Net Position - Governmental Activities	\$ 39,090,077

City of Valley City, North Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2015

	General	9th Avenue Northwest	City Sales Tax Economic	Paving Projects	Infrastructure Renewal & Replacement	Watermain Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues									
General property taxes	\$ 1,002,672	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,982	\$ 162,206	\$ 1,273,860
Special assessments	110,286	48,467	-	116,434	-	-	874,757	42,258	1,192,202
Franchise fees	153,432	-	-	-	420,038	-	-	-	573,470
Licenses and permits	46,855	-	-	-	-	-	-	-	46,855
Intergovernmental revenue	8,970,928	-	1,807	-	-	-	16,495	1,113,701	10,102,931
Fines and forfeitures	107,503	-	-	-	-	-	-	-	107,503
Sales tax	-	-	272,681	-	870,522	-	-	-	1,143,203
Miscellaneous revenue	189,966	-	61,000	-	188	-	343,528	12,069	609,751
Total revenues	10,581,642	48,467	338,488	116,434	1,290,748	-	1,343,762	1,330,234	15,049,775
Expenditures									
Current									
General government	778,687	-	-	-	-	-	-	-	778,687
Public safety	2,234,882	-	-	-	-	-	-	2,524	2,237,406
General government - other	44,293	-	-	-	-	-	-	585,432	629,725
Culture and recreation	38,597	-	-	-	-	-	-	105,399	143,996
Community development	25,085	-	174,326	-	-	-	-	46,398	245,809
Economic development	915	-	-	-	-	-	-	-	915
Permanent flood protection	471,249	-	-	-	-	-	-	-	471,249
Miscellaneous	175,056	213	-	-	-	-	-	186,550	361,819
Capital outlay	7,852,045	-	304,407	529,473	-	1,186,443	-	522,968	10,395,336
Debt service	-	-	-	-	-	-	895,632	-	895,632
Principal	-	-	-	-	-	-	345,298	-	345,298
Interest and fees	-	-	-	-	-	-	-	-	-
Total expenditures	11,620,809	213	478,733	529,473	-	1,186,443	1,240,930	1,449,271	16,505,872
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,039,167)	48,254	(140,245)	(413,039)	1,290,748	(1,186,443)	102,832	(119,037)	(1,456,097)
Other Financing Sources (Uses)									
Bond proceeds	-	492,584	1,810,030	1,255,358	-	353,750	526,824	106,454	4,545,000
Premium on bonds	-	-	-	-	-	-	60,159	-	60,159
Transfers in	1,654,996	-	-	291,477	-	608,094	43,686	234,627	2,832,880
Transfers out	(682,975)	-	-	-	(972,252)	-	(6,900)	(310,753)	(1,972,880)
Total other financing sources and uses	972,021	492,584	1,810,030	1,546,835	(972,252)	961,844	623,769	30,328	5,465,159
Net Change in Fund Balance	(67,146)	540,838	1,669,785	1,133,796	318,496	(224,599)	726,601	(88,709)	4,009,062
Fund Balance (Deficit), Beginning	2,675,490	(541,051)	(249,402)	(1,712,271)	2,177,230	(564,198)	2,036,539	(17,142)	3,805,195
Fund Balance (Deficit), Ending	\$ 2,608,344	\$ (213)	\$ 1,420,383	\$ (578,475)	\$ 2,495,726	\$ (788,797)	\$ 2,763,140	\$ (105,851)	\$ 7,814,257

City of Valley City, North Dakota
 Governmental Funds
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance to the Statement of Activities
 Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 4,009,062
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:</p>	
Capital outlay	10,395,337
Contribution of capital assets to proprietary fund	(2,993,381)
Depreciation expense	(1,161,708)
The net effect of the disposal of capital assets is to decrease net position	(16,072)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds.	(135,222)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(14,997)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds.	(46,942)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:</p>	
Bonds issued	(4,545,000)
Capital lease retirement	21,483
Bond principal retirement	895,632
Change in Net Position of Governmental Activities	\$ 6,408,192

City of Valley City, North Dakota
 General Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance – Budget to Actual
 Year Ended December 31, 2015

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
General property taxes	\$ 1,032,400	\$ 1,002,672	\$ (29,728)
Special assessments	102,000	110,286	8,286
Licenses and permits	44,600	46,855	2,255
Intergovernmental revenue	10,794,750	8,970,928	(1,823,822)
Fines and forfeitures	84,000	107,503	23,503
Franchise fees	149,000	153,432	4,432
Miscellaneous	125,960	189,966	64,006
Total revenues	<u>12,332,710</u>	<u>10,581,642</u>	<u>(1,751,068)</u>
Expenditures			
Current			
General government	847,917	778,687	69,230
Public safety	2,333,311	2,234,882	98,429
General government - other	176,175	44,293	131,882
Culture and recreation	40,000	38,597	1,403
Community development	-	25,085	(25,085)
Economic development	2,200	915	1,285
Permanent flood protection	-	471,249	(471,249)
Miscellaneous	50,000	175,056	(125,056)
Capital outlay	11,564,027	7,852,045	3,711,982
Total expenditures	<u>15,013,630</u>	<u>11,620,809</u>	<u>3,392,821</u>
Deficiency of Revenues Under Expenditures	(2,680,920)	(1,039,167)	1,641,753
Other Financing Sources (Uses)			
Transfers in	1,525,742	1,654,996	129,254
Transfers out	(746,742)	(682,975)	63,767
Total other financing sources and uses	<u>779,000</u>	<u>972,021</u>	<u>193,021</u>
Net Change in Fund Balance	<u>\$ (1,901,920)</u>	(67,146)	<u>\$ 1,834,774</u>
Fund Balance, Beginning		<u>2,675,490</u>	
Fund Balance, Ending		<u>\$ 2,608,344</u>	

City of Valley City, North Dakota
Proprietary Funds
Statement of Net Position
December 31, 2015

	Electric	Water	Sewer	Garbage	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 3,209,723	\$ -	\$ 219,159	\$ 537,186	\$ 3,966,068
Accounts receivable - net					
Accounts	488,317	64,502	59,535	71,103	683,457
Accrued interest	-	283	27	-	310
Unbilled revenues	332,870	49,298	32,795	35,199	450,162
Inventories	317,661	169,145	-	-	486,806
Prepaid expenses	56,186	-	-	-	56,186
Due from other governmental units	22,407	2,780	13	91	25,291
Total current assets	<u>4,427,164</u>	<u>286,008</u>	<u>311,529</u>	<u>643,579</u>	<u>5,668,280</u>
Capital assets					
Land	114,385	147,572	113,242	49,494	424,693
Construction in progress	110,975	287	65,239	-	176,501
Buildings and improvements	627,039	23,827,936	123,074	389,641	24,967,690
Machinery and equipment	4,256,724	1,031,815	493,074	1,362,367	7,143,980
Mains and lines	11,953,147	14,494,921	14,933,603	-	41,381,671
Less accumulated depreciation	<u>(12,436,922)</u>	<u>(11,082,051)</u>	<u>(5,753,570)</u>	<u>(1,272,219)</u>	<u>(30,544,762)</u>
Net capital assets	<u>4,625,348</u>	<u>28,420,480</u>	<u>9,974,662</u>	<u>529,283</u>	<u>43,549,773</u>
Unearned debits	-	4,658	-	-	4,658
Restricted cash	48,871	286,498	21,250	-	356,619
Total assets	<u>9,101,383</u>	<u>28,997,644</u>	<u>10,307,441</u>	<u>1,172,862</u>	<u>49,579,330</u>
Liabilities					
Current liabilities					
Accounts payable	553,727	39,847	1,662	30,517	625,753
Accrued interest payable	-	10,408	754	-	11,162
Customer deposits	48,871	-	-	-	48,871
Due to other funds	-	430,526	-	-	430,526
Other liabilities	41,005	3,249	157	579	44,990
Interfund special assessments payable	4,418	43,181	424	750	48,773
Current maturities of long-term debt	190,293	180,000	24,000	-	394,293
Total current liabilities	<u>838,314</u>	<u>707,211</u>	<u>26,997</u>	<u>31,846</u>	<u>1,604,368</u>
Long-term debt (net of current portion)					
Bonds payable	-	1,795,000	206,000	-	2,001,000
Interfund special assessments payable	39,103	383,750	4,492	6,000	433,345
Total long-term debt	<u>39,103</u>	<u>2,178,750</u>	<u>210,492</u>	<u>6,000</u>	<u>2,434,345</u>
Total liabilities	<u>877,417</u>	<u>2,885,961</u>	<u>237,489</u>	<u>37,846</u>	<u>4,038,713</u>
Net Position					
Net investment in capital assets	4,435,055	26,445,480	9,768,238	528,533	41,177,306
Restricted	48,871	286,498	21,250	-	356,619
Unrestricted	3,740,040	(620,295)	280,464	606,483	4,006,692
Total net position	<u>\$ 8,223,966</u>	<u>\$ 26,111,683</u>	<u>\$ 10,069,952</u>	<u>\$ 1,135,016</u>	<u>\$ 45,540,617</u>

City of Valley City, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2015

	Electric	Water	Sewer	Garbage	Total
Operating Revenues					
Utility sales and service charges	\$ 7,495,298	\$ 1,275,204	\$ 609,776	\$ 849,495	\$ 10,229,773
Forfeited discounts and penalties	4,047	879	609	607	6,142
Landfill fees	-	-	-	189,969	189,969
Total operating revenues	<u>7,499,345</u>	<u>1,276,083</u>	<u>610,385</u>	<u>1,040,071</u>	<u>10,425,884</u>
Operating Expenses					
Production and pumping	45,277	405,118	-	-	450,395
Cost of power	4,968,183	-	-	-	4,968,183
Distribution expense	375,972	323,337	218,826	-	918,135
Landfill and collections	-	-	-	749,710	749,710
Customer accounts	58,863	21,032	1,516	4,600	86,011
Customer service and information	9,803	-	-	-	9,803
Administration and general	629,649	245,177	83,172	176,111	1,134,109
Depreciation and amortization	460,657	1,141,240	428,771	60,879	2,091,547
Costs of services contributed to city	32,039	15,432	385	-	47,856
Total operating expenses	<u>6,580,443</u>	<u>2,151,336</u>	<u>732,670</u>	<u>991,300</u>	<u>10,455,749</u>
Operating Income (Loss)	918,902	(875,253)	(122,285)	48,771	(29,865)
Nonoperating Revenues (Expenses)					
Net merchandising revenue					
(gross revenue of \$158,648)	30,561	10,642	2,807	-	44,010
Interest income	10,314	979	-	-	11,293
Interest on long-term debt	(1,833)	(52,580)	(2,660)	(429)	(57,502)
Total nonoperating revenues (expenses)	<u>39,042</u>	<u>(40,959)</u>	<u>147</u>	<u>(429)</u>	<u>(2,199)</u>
Income (Loss) Before Transfers and Capital Contributions	957,944	(916,212)	(122,138)	48,342	(32,064)
Transfers out	(860,000)	-	-	-	(860,000)
Contribution of capital assets	-	2,479,830	513,551	-	2,993,381
Change in Net Position	97,944	1,563,618	391,413	48,342	2,101,317
Net Position, Beginning of Year	<u>8,126,022</u>	<u>24,548,065</u>	<u>9,678,539</u>	<u>1,086,674</u>	<u>43,439,300</u>
Net Position, End of Year	<u>\$ 8,223,966</u>	<u>\$ 26,111,683</u>	<u>\$ 10,069,952</u>	<u>\$ 1,135,016</u>	<u>\$ 45,540,617</u>

City of Valley City, North Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2015

	Electric	Water	Sewer	Garbage	Total
Operating Activities					
Receipts from customers and users	\$ 7,527,626	\$ 1,281,630	\$ 590,075	\$ 1,063,399	\$ 10,462,730
Payments for cost of power	(4,968,183)	-	-	-	(4,968,183)
Payments for employee costs	(42,496)	(48)	-	(142)	(42,686)
Payments to other vendors	(1,007,444)	(1,161,032)	(304,341)	(936,585)	(3,409,402)
Net cash from operating activities	<u>1,509,503</u>	<u>120,550</u>	<u>285,734</u>	<u>126,672</u>	<u>2,042,459</u>
Non-Capital Financing Activities					
Transfer (to) from other funds	(860,000)	-	-	-	(860,000)
Contribution of capital assets	-	2,479,830	513,551	-	2,993,381
Change in interfund balances	-	430,526	-	-	430,526
Net cash from (used for) non-capital financing activities	<u>(860,000)</u>	<u>2,910,356</u>	<u>513,551</u>	<u>-</u>	<u>2,563,907</u>
Capital and Related Financing Activities					
Property and equipment additions	(492,306)	(2,783,519)	(613,550)	(2,030)	(3,891,405)
Payments on long-term debt					
Principal	-	(175,000)	(15,000)	-	(190,000)
Interfund special assessments payable	(3,936)	(36,266)	(446)	(750)	(41,398)
Interest	(1,833)	(52,580)	(2,660)	(429)	(57,502)
Net cash used for capital and related financing activities	<u>(498,075)</u>	<u>(3,047,365)</u>	<u>(631,656)</u>	<u>(3,209)</u>	<u>(4,180,305)</u>
Investing Activity					
Interest and dividends from investments	10,314	979	-	-	11,293
Change in Cash and Cash Equivalents	161,742	(15,480)	167,629	123,463	437,354
Cash and Cash Equivalents - Beginning of Year (including restricted cash)	<u>3,096,852</u>	<u>301,978</u>	<u>72,780</u>	<u>413,723</u>	<u>3,885,333</u>
Cash and Cash Equivalents - End of Year (including restricted cash)	<u>\$ 3,258,594</u>	<u>\$ 286,498</u>	<u>\$ 240,409</u>	<u>\$ 537,186</u>	<u>\$ 4,322,687</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 918,902	\$ (875,253)	\$ (122,285)	\$ 48,771	\$ (29,865)
Adjustments to reconcile operating income (loss) to net cash from operating activities					
Depreciation	460,657	1,141,240	428,771	60,879	2,091,547
Other income	30,561	10,642	2,807	-	44,010
Changes in assets and liabilities					
Accounts receivable	(2,280)	(5,095)	(23,117)	23,328	(7,164)
Inventories	167,414	(169,145)	-	-	(1,731)
Prepaid expenses	24,381	-	-	-	24,381
Deferred debits	-	718	-	-	718
Accounts payable	(75,875)	18,008	(306)	(6,448)	(64,621)
Accrued liabilities	-	(613)	(50)	-	(663)
Customer deposits	3,519	-	-	-	3,519
Other liabilities	12,360	48	(86)	142	12,464
Compensated absences payable	(30,136)	-	-	-	(30,136)
Net cash from operating activities	<u>\$ 1,509,503</u>	<u>\$ 120,550</u>	<u>\$ 285,734</u>	<u>\$ 126,672</u>	<u>\$ 2,042,459</u>

Note 1 - Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

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

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

There are no component units reported within these financial statements.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

- General Fund – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.
- 9th Avenue Northwest Fund – This fund accounts for related improvements.
- City Sales Tax Economic – This fund accounts for the collection sales and use taxes.
- Paving Projects – This fund accounts for the resources accumulated and payments made for city paving projects.
- Infrastructure Renewal & Replacement – This fund accounts for the resources accumulated and payments made for infrastructure projects.

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

The City reports the following major proprietary funds:

- Electric – This fund accounts for the provision of electric service to the residents of the City.
- Water – This fund accounts for the provision of water utility service to the residents of the City.
- Sewer – This fund accounts for the provision of sanitary sewer service to the residents of the City.
- Garbage – This fund accounts for the provision of sanitation and garbage removal service to the residents of the City.

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

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

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

Other Significant Accounting Policies

Budgets and Budgetary Accounting

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

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

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

All unexpended appropriations lapse at year-end.

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

Cash and Cash Equivalents, and Restricted Cash

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

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

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

Inventories

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items in both government-wide and fund financial statements.

Receivable and Credit Policy

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

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), mains and lines, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at 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 lives are not capitalized.

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

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

Compensated Absences

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

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

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

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

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

Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deemed to be immaterial.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

The following classifications describe the relative strength of spending constraints:

- **Nonspendable fund balance**—represents amounts that cannot be spent due to form such as inventories, prepaids, long-term loans, and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).
- **Restricted fund balance**—represents amounts that exist when constraints are placed on the use of resources that are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments (or) restrictions imposed by law through constitutional provisions or enabling legislation (ie. Emergency fund).
- **Committed fund balance**—represents amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the City Commission. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it previously employed to commit those amounts. (Example would be legislation, resolution, or ordinance). (ie. Sales tax ordinance, budget ordinance)
- **Assigned fund balance**—represents amounts constrained by the City’s intent to be used for a specific purpose, but are not restricted or committed. The Commission has delegated the authority to assign these amounts to the City Administrator and the City Auditor. Assigned amounts or changes to Assigned amounts will later be presented to the Commission for review.
- **Unassigned fund balance**—represents the remaining residual balances that have not been restricted, committed, or assigned to specific purposes within the General Fund.

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

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

Net Position

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

Self-Insurance

The City implemented a self-insurance medical plan in March 1985 which includes a stop-loss provision at \$20,000 per year for any one individual. The Aggregate Stop-Loss Attachment Point is \$689,320. Aggregate claims in excess of this amount are paid by the city's insurer. Maximum administrative fees and conversion coverage costs are \$54,456. Liabilities are recorded when a determinable claim or loss has been incurred and the amount of the loss can be reasonably estimated.

Risk Management

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

Deferred Inflows of Resources

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

Note 2 - Compliance

Deficit Fund Balance

Fund balance deficits existed in certain individual funds at December 31, 2015, as follows:

9th Avenue Northwest	\$	213
Paving Projects		578,475
Watermain Projects		788,797
Nonmajor Governmental Funds		
Emergency		310,916
City Share of Special Assessments		217
Sidewalk, Curb & Gutter Projects		600
Storm Sewer Projects		44,048
Storm Sewer 32		31,454
Underground Construction		107,582

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

Note 3 - Deposits and Investments

Deposits

In accordance with the North Dakota Century Code, the City maintains deposits at depository banks covered by Federal Depository Insurance. Century Code requires that all City deposits be protected by insurance, collateral or surety bond. The market value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds. As of December 31, 2015, the City's deposits include savings accounts, money market funds, and certificates of deposit.

Investments

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk. As of December 31, 2015, the City's deposits were either fully insured or properly collateralized, and have no custodial credit risk.

Interest Rate Risk – Investments

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

The following table presents the City’s deposit and investment balances at December 31, 2015

<u>Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>N/A</u>	<u>< 1</u>
Cash and cash equivalents			
Deposits	\$ 11,691,895	\$ 11,691,895	\$ -
Petty cash	1,200	1,200	-
Investments			
Certificates of deposit	<u>225,750</u>	<u>-</u>	<u>225,750</u>
	<u>\$ 11,918,845</u>	<u>\$ 11,693,095</u>	<u>\$ 225,750</u>

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

Cash and cash equivalents - Statement of Net Position	\$ 11,562,226
Restricted cash - Statement of Net Position	<u>356,619</u>
	<u>\$ 11,918,845</u>

Note 4 - Property Taxes and Special Assessments

Property Taxes

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

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

Special Assessments

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

- Delinquent – amounts billed to property owners but not paid.
- Deferred – assessment installments that will be billed to property owners in future years.
- Interfund – assessment installments for proprietary fund owned property not yet paid

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 173,800	\$ -	\$ -	\$ 173,800
Construction in progress	4,636,807	8,340,804	4,349,655	8,627,956
Total capital assets not being depreciated	<u>4,810,607</u>	<u>8,340,804</u>	<u>4,349,655</u>	<u>8,801,756</u>
Capital assets, being depreciated:				
Infrastructure	28,191,032	2,680,697	-	30,871,729
Buildings and improvements	2,048,556	46,980	-	2,095,536
Machinery and equipment	1,505,558	102,137	603,680	1,004,015
Vehicles	2,504,562	580,993	50,000	3,035,555
Total capital assets being depreciated	<u>34,249,708</u>	<u>3,410,807</u>	<u>653,680</u>	<u>37,006,835</u>
Less accumulated depreciation for:				
Infrastructure	3,259,317	771,790	-	4,031,107
Buildings and improvements	1,405,225	80,960	-	1,486,185
Machinery and equipment	1,396,644	64,486	602,608	858,522
Vehicles	1,136,358	244,472	35,000	1,345,830
Total accumulated depreciation	<u>7,197,544</u>	<u>1,161,708</u>	<u>637,608</u>	<u>7,721,644</u>
Total capital assets being depreciated, net	<u>27,052,164</u>	<u>2,249,099</u>	<u>16,072</u>	<u>29,285,191</u>
Governmental activities capital assets, net	<u>\$ 31,862,771</u>	<u>\$ 10,589,903</u>	<u>\$ 4,365,727</u>	<u>\$ 38,086,947</u>

City of Valley City, North Dakota
Notes to Financial Statements
December 31, 2015

<u>Business-type activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 424,693	\$ -	\$ -	\$ 424,693
Construction in progress	2,051,197	625,431	2,500,127	176,501
Total capital assets not being depreciated	<u>2,475,890</u>	<u>625,431</u>	<u>2,500,127</u>	<u>601,194</u>
Capital assets, being depreciated:				
Buildings and improvements	24,947,366	20,324	-	24,967,690
Machinery and equipment	5,244,650	1,899,330	-	7,143,980
Mains and lines	37,535,224	3,854,597	8,150	41,381,671
Total capital assets being depreciated	<u>67,727,240</u>	<u>5,774,251</u>	<u>8,150</u>	<u>73,493,341</u>
Less accumulated depreciation	<u>28,453,215</u>	<u>2,091,547</u>	<u>-</u>	<u>30,544,762</u>
Total capital assets being depreciated, net	<u>39,274,025</u>	<u>3,682,704</u>	<u>8,150</u>	<u>42,948,579</u>
Business-type activities capital assets, net	<u>\$ 41,749,915</u>	<u>\$ 4,308,135</u>	<u>\$ 2,508,277</u>	<u>\$ 43,549,773</u>

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

Governmental activities:	
General government	\$ 69,393
Public safety	90,986
Public works	988,345
Culture and recreation	12,984
Total depreciation expense - governmental activities	<u>\$ 1,161,708</u>
Business-type activities:	
Electric	\$ 460,657
Water	1,141,240
Sewer facility	428,771
Garbage	60,879
Total depreciation expense - business-type activities	<u>\$ 2,091,547</u>

Note 6 - Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 120,000	\$ -	\$ 75,000	\$ 45,000	\$ 45,000
Special assessment bonds	6,492,441	4,545,000	645,632	10,391,809	938,737
Sales tax revenue bonds	2,725,000	-	175,000	2,550,000	175,000
Capital lease	471,363	-	21,483	449,880	22,247
Compensated absences	106,856	101,141	86,144	121,853	121,853
	<u>\$ 9,915,660</u>	<u>\$ 4,646,141</u>	<u>\$ 1,003,259</u>	<u>\$ 13,558,542</u>	<u>\$ 1,302,837</u>
Governmental activity long-term debt					
Business-type activities:					
Revenue bonds	\$ 2,395,000	\$ -	\$ 190,000	\$ 2,205,000	\$ 204,000
Compensated absences	220,429	180,536	210,672	190,293	190,293
	<u>\$ 2,615,429</u>	<u>\$ 180,536</u>	<u>\$ 400,672</u>	<u>\$ 2,395,293</u>	<u>\$ 394,293</u>
Business-type activity long-term debt					

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

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

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

The City has pledged future sales tax revenues, net of specified operating expenses, to repay \$2.9 million in sales tax revenue bonds issued in 2013. Proceeds from the bonds were used for economic development and job creation. Principal and interest paid for the current year was \$231,970. Net sales tax revenue totaled \$2,176,307 for the year.

The 2011 Special Assessment Refunding Bonds were special assessment bonds. North Dakota state law requires that these be called refunding bonds because warrants are the first issuance that are refunded with the bond issuance.

The capital lease agreement requires annual lease payments and monthly interest payments, at an interest rate from 3.50%. Payments began June 2014 and will continue through June 2021.

City of Valley City, North Dakota
Notes to Financial Statements
December 31, 2015

The capital lease consists of a motorgrader for \$509,610 with total accumulated depreciation of \$152,883 as of December 31, 2015. Maturities of principal and interest payments are as follows:

<u>Years Ending December 31,</u>	<u>Capital lease</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 22,247	\$ 15,609
2017	23,038	14,803
2018	23,857	13,970
2019	24,706	13,106
2020	25,585	12,212
2021	330,447	5,929
Total	<u>\$ 449,880</u>	<u>\$ 75,629</u>

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

The annual requirements to amortize all bonded debt and special assessments outstanding as of December 31, 2015, are as follows:

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,158,737	\$ 335,469	\$ 204,000	\$ 21,705
2017	1,067,205	312,826	204,000	19,085
2018	1,030,740	233,297	209,000	16,465
2019	1,004,451	267,569	209,000	13,720
2020	1,018,281	243,179	214,000	10,975
2021-2025	4,732,395	818,970	725,000	24,970
2026-2030	2,590,000	231,339	440,000	4,225
2031-2035	260,000	38,563	-	-
2036-2040	125,000	10,156	-	-
Total	<u>\$ 12,986,809</u>	<u>\$ 2,491,368</u>	<u>\$ 2,205,000</u>	<u>\$ 111,145</u>

City of Valley City, North Dakota
Notes to Financial Statements
December 31, 2015

Bonds Payable	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
Governmental activities:				
2003 Bridgeview Estates Special Assessment Bonds	5.80	2024	\$ 338,460	\$ 209,017
2007 Special Assessment Bonds	3.60 - 4.50	2026	2,585,000	1,375,000
Tax Increment Financing Bonds of 2008	4.50	2024	825,000	567,792
2007 G.O. Highway Bonds	3.70 - 3.90	2016	355,000	45,000
2008 Special Assessment Bonds	3.50 - 4.30	2017	375,000	80,000
2011 Special Assessment Refunding Bonds	3.55 - 4.00	2031	4,090,000	2,900,000
2013 Refunding Improvement Bond	0.35 - 2.20	2026	955,000	715,000
2013 Sales Tax Revenue Bond	0.50 - 3.00	2028	2,900,000	2,550,000
2015 Improvement Bond	2.00 - 3.25	2040	4,545,000	4,545,000
Total				<u>\$ 12,986,809</u>
Business-type activities:				
2002 Drinking Water Revolving Loan Fund Wastewater Treatment Revenue Bond, series 2009	2.5	2021	\$ 1,500,000	\$ 510,000
Water Treatment Revenue Bond, series 2009	0.5	2025	260,000	230,000
	0.5	2030	4,485,031	1,465,000
Total				<u>\$ 2,205,000</u>

During the year the City issued 2015 Improvement Bonds for \$4,545,000. The bond term is 25 years, beginning on April 20, 2015. The bonds will be held with an annual interest rate of 2.00 - 3.25%.

Compensated Absences

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

Conduit Debt

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

As of December 31, 2015, there were series of Industrial Revenue Bonds outstanding; the aggregate principal amount payable is \$3,540,000. Neither the State of North Dakota nor the City of Valley City has a central repository. The only requirement for this type of issue is to request the amount needed for City approval, most times this amount is in excess of the actual amount issued. When completely paid or called they must notify the City of this event.

Note 7 - Interfund Receivables, Payables, and Transfers

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

A summary of the City's interfund balances at December 31, 2015, is as follows:

	Due From Other Funds	Due To Other Funds
General	\$ 1,635,903	\$ 358,892
Infrastructure Renewal & Replacement	946,164	-
Watermain Projects	-	671,110
Paving Projects	-	520,682
Debt Service	-	34,502
Other governmental funds	-	566,355
Water	-	430,526
	\$ 2,582,067	\$ 2,582,067

A summary of the City's interfund special assessment balances at December 31, 2015, is as follows:

	Interfund Special Assessments Receivable	Interfund Special Assessments Payable
General	\$ 1,200	\$ -
Debt Service	480,918	-
Electric	-	43,521
Water	-	426,931
Sewer	-	4,916
Garbage	-	6,750
	\$ 482,118	\$ 482,118

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

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 1,654,996	\$ 682,975
Watermain Projects	608,094	-
Infrastructure Renewal & Replacement	-	972,252
Paving Projects	291,477	-
Debt Service	43,686	6,900
Non-major governmental	234,627	310,753
Total governmental funds	2,832,880	1,972,880
Proprietary Funds		
Electric	-	860,000
Total transfers	\$ 2,832,880	\$ 2,832,880

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

Note 8 - Pension Plan

The City contributes to the self-administered trustee money purchase pension plan, a defined contribution profit-sharing plan, for substantially all employees. Benefit terms, including contribution requirements, for the plan are established and may be amended by the City's Board. The City is required to contribute, at a maximum, 10% of the employees' recognized compensation. The contributions by the employer are credited to a separate bookkeeping account for each individual who will share in any earnings or loss of the plan. The pension contributions in 2015 and 2014 were \$270,468 and \$217,556, respectively, including Public Works contributions of \$163,664 and \$130,713, respectively. The City had liabilities to the plan at December 31, 2015 and 2014 of \$6,320 and \$4,819, respectively.

Note 9 - Commitments

Litigation and Potential Exposure – In the ordinary course of its business, the City is party to legal proceedings as a plaintiff or defendant. Management does not believe that the ultimate disposition of any or all of these proceedings will have a material effect on the City’s financial position.

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

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

Construction Commitments – The City has active construction projects as of December 31, 2015. A construction commitment for Permanent Flood Protection of \$5,507,520 was applicable as of year-end with the City’s cost share equal to twenty percent of that balance or \$1,101,504. An engineering commitment for Permanent Flood Protection University District Construction engineering of \$522,373 was applicable as of year-end. An engineering commitment for Permanent Flood Protection Master Plan of \$267,090 was applicable as of year-end with the City’s cost share equal to twenty percent of that balance or \$53,418. The City entered into a contract for a Shared Use Path Along West Main Street and 5th Street. The contract amount is \$288,086 with the City’s cost share equal to 19.07% of that balance or \$54,938. Construction will begin in 2016.

Note 10 - Self-Insurance

The City implemented a self-insurance medical plan in March 1985 which includes a stop-loss provision at \$20,000 per year for any one individual. All aggregate claims in excess of \$841,579 are paid by the city’s insurer. Liabilities are recorded when a determinable claim or loss has been incurred and the amount of the loss can be reasonably estimated.

	2015	2014
Claims incurred but not reported at beginning of year	\$ 31,813	\$ 32,941
Claims incurred	609,206	468,205
Claims paid	(616,377)	(469,333)
Claims incurred but not reported at end of year	\$ 24,642	\$ 31,813

Note 11 - Issued But Non-Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The first statement issued but not yet implemented that will significantly affect the City is statement No. 72, *Fair Value Measurement and Application*. This statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. This statement will be implemented at the City in the year ended December 31, 2016.

The second statement issued but not yet implemented that will significantly affect the City is statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. This statement will be implemented at the City in the year ended December 31, 2016.

The third statement issued but not yet implemented that will significantly affect the City is statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement will be implemented at the City in the year ended December 31, 2017.

The fourth statement issued but not yet implemented that will significantly affect the City is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at the City in the year ended December 31, 2018.

The fifth statement issued but not yet implemented that will significantly affect the City is statement No. 77, *Tax Abatement Disclosures*. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. This statement will be implemented at the City in the year ended December 31, 2016.

The sixth statement issued but not yet implemented that will significantly affect the City is statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement will be implemented at the City in the year ended December 31, 2016.

The seventh statement issued but not yet implemented that will significantly affect the City is statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. This statement will be implemented at the City in the year ended December 31, 2016.

The final statement issued but not yet implemented that will significantly affect the City is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the City in the year ended December 31, 2017.

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



Supplementary Information
December 31, 2015

City of Valley City, North Dakota

City of Valley City, North Dakota
 General Fund, By Department
 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Year Ended December 31, 2015

	General Operations Department	City Financed Special Assessment Projects Department	Permanent Flood Protection Department	Building Reserve Department	Renewal and Replacement Department	Street Equipment Renewal and Replacement Department	Financing Reserves (BN) Department	Sewer Renewal & Replacement Department	Streets Department	Total General Fund
Revenues										
General property taxes	\$ 1,002,672	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,002,672
Special assessments	4,939	105,347	-	-	-	-	-	-	-	110,286
Franchise fees	-	-	-	-	-	-	-	153,432	-	153,432
Licenses and permits	46,855	-	-	-	-	-	-	-	-	46,855
Intergovernmental revenue	589,070	-	7,929,551	5,339	4,000	-	-	-	442,968	8,970,928
Fines and forfeitures	107,503	-	-	-	-	-	-	-	-	107,503
Miscellaneous revenue	167,627	-	-	-	-	750	6,499	586	14,504	189,966
Total revenues	1,918,666	105,347	7,929,551	5,339	4,000	750	6,499	154,018	457,472	10,581,642
Expenditures										
Current										
General government	778,687	-	-	-	-	-	-	-	-	778,687
Public safety	1,522,715	-	-	-	-	-	-	-	712,167	2,234,882
General government - other	44,293	-	-	-	-	-	-	-	-	44,293
Culture and recreation	38,597	-	-	-	-	-	-	-	-	38,597
Community development	-	-	-	25,085	-	-	-	-	-	25,085
Economic development	915	-	-	-	-	-	-	-	-	915
Permanent flood protection	-	-	471,249	-	-	-	-	-	-	471,249
Miscellaneous	-	-	-	-	6,637	166,343	2,076	-	-	175,056
Capital outlay	35,297	-	7,225,301	28,717	562,730	-	-	-	-	7,852,045
Total expenditures	2,420,504	-	7,696,550	53,802	569,367	166,343	2,076	-	712,167	11,620,809
Excess (Deficiency) of Revenues over (Under) Expenditures	(501,838)	105,347	233,001	(48,463)	(565,367)	(165,593)	4,423	154,018	(254,695)	(1,039,167)
Other Financing Sources (Uses)										
Transfers in	893,200	-	143,461	48,463	289,872	110,000	-	-	170,000	1,654,996
Transfers out	(583,335)	(80,661)	-	-	-	-	-	(18,979)	-	(682,975)
Total other financing sources and uses	309,865	(80,661)	143,461	48,463	289,872	110,000	-	(18,979)	170,000	972,021
Net Change in Fund Balance	(191,973)	24,686	376,462	-	(275,495)	(55,593)	4,423	135,039	(84,695)	(67,146)
Fund Balance (Deficit), Beginning	1,679,846	(358,800)	160,140	-	256,032	223,092	460,557	139,415	115,208	2,675,490
Fund Balance (Deficit), Ending	\$ 1,487,873	\$ (334,114)	\$ 536,602	\$ -	\$ (19,463)	\$ 167,499	\$ 464,980	\$ 274,454	\$ 30,513	\$ 2,608,344

City of Valley City, North Dakota
 Nonmajor Governmental Funds
 Combined Balance Sheet
 December 31, 2015

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 327,966	\$ -	\$ 327,966
Receivables			
Accounts	5,547	-	5,547
Taxes receivable - delinquent	3,141	-	3,141
Special Assessments			
Current	2,344	-	2,344
Delinquent	1,865	-	1,865
Deferred	7,500	-	7,500
Due from other governmental units	221,748	2,959	224,707
Total assets	\$ 570,111	\$ 2,959	\$ 573,070
Liabilities			
Accounts payable	\$ 67,801	\$ 29,915	\$ 97,716
Due to other funds	409,627	156,728	566,355
Total liabilities	477,428	186,643	664,071
Deferred Inflows of Resources			
Unavailable revenue-property taxes	3,141	-	3,141
Unavailable revenue-special assessments	11,709	-	11,709
Total deferred inflows of resources	14,850	-	14,850
Fund balance (deficit)			
Restricted			
Community development	350,905	-	350,905
Emergency services	37,007	-	37,007
Unassigned	(310,079)	(183,684)	(493,763)
Total fund balance (deficit)	77,833	(183,684)	(105,851)
Total liabilities, deferred inflows and fund balance (deficit)	\$ 570,111	\$ 2,959	\$ 573,070

City of Valley City, North Dakota
 Nonmajor Governmental Funds
 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2015

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues			
General property taxes	\$ 162,206	\$ -	\$ 162,206
Special assessments	-	42,258	42,258
Intergovernmental revenue	953,200	160,501	1,113,701
Miscellaneous revenue	12,069	-	12,069
Total revenues	<u>1,127,475</u>	<u>202,759</u>	<u>1,330,234</u>
Expenditures			
General government - other	585,432	-	585,432
Public safety	2,524	-	2,524
Culture and recreation	105,399	-	105,399
Community development	46,398	-	46,398
Capital outlay	-	522,968	522,968
Other	186,550	-	186,550
Total expenditures	<u>926,303</u>	<u>522,968</u>	<u>1,449,271</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	201,172	(320,209)	(119,037)
Other Financing Sources (Uses)			
Bonds issued	-	106,454	106,454
Transfers in	-	234,627	234,627
Transfers out	(310,753)	-	(310,753)
	<u>(310,753)</u>	<u>341,081</u>	<u>30,328</u>
Net Change in Fund Balance	(109,581)	20,872	(88,709)
Fund Balance (Deficit), Beginning of Year	<u>187,414</u>	<u>(204,556)</u>	<u>(17,142)</u>
Fund Balance (Deficit), End of Year	<u>\$ 77,833</u>	<u>\$ (183,684)</u>	<u>\$ (105,851)</u>

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2015

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	Real Estate	City Sales Tax Property
Assets						
Cash and cash equivalents	\$ -	\$ 21,126	\$ -	\$ -	\$ 11,723	\$ 79,825
Receivables						
Accounts	-	-	-	-	-	-
Taxes receivable - delinquent	788	-	299	2,054	-	-
Special Assessments						
Current	-	2,344	-	-	-	-
Delinquent	-	1,865	-	-	-	-
Deferred	-	7,500	-	-	-	-
Due from other governmental units	324	-	98,170	837	-	33,180
Total assets	<u>\$ 1,112</u>	<u>\$ 32,835</u>	<u>\$ 98,469</u>	<u>\$ 2,891</u>	<u>\$ 11,723</u>	<u>\$ 113,005</u>
Liabilities						
Accounts payable	\$ -	\$ 1,440	\$ -	\$ -	\$ -	\$ -
Due to other funds	541	-	409,086	-	-	-
Total liabilities	<u>541</u>	<u>1,440</u>	<u>409,086</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	788	-	299	2,054	-	-
Unavailable revenue - special assessments	-	11,709	-	-	-	-
Total deferred inflow of resources	<u>788</u>	<u>11,709</u>	<u>299</u>	<u>2,054</u>	<u>-</u>	<u>-</u>
Fund balance (deficit)						
Restricted						
Community development	(217)	19,686	-	-	11,723	113,005
Emergency services	-	-	-	-	-	-
Unassigned						
Total fund balance (deficit)	<u>(217)</u>	<u>19,686</u>	<u>(310,916)</u>	<u>837</u>	<u>11,723</u>	<u>113,005</u>
Total liabilities, deferred inflows, and fund balance (deficit)	<u>\$ 1,112</u>	<u>\$ 32,835</u>	<u>\$ 98,469</u>	<u>\$ 2,891</u>	<u>\$ 11,723</u>	<u>\$ 113,005</u>

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2015

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 2,382	\$ -	\$ 37,007	\$ 41,760	\$ 134,143	\$ 327,966
Receivables						
Accounts	-	-	-	5,547	-	5,547
Taxes receivable - delinquent	-	-	-	-	-	3,141
Special Assessments						
Current	-	-	-	-	-	2,344
Delinquent	-	-	-	-	-	1,865
Deferred	-	-	-	-	-	7,500
Due from other governmental units	6,636	66,361	-	-	16,240	221,748
Total assets	\$ 9,018	\$ 66,361	\$ 37,007	\$ 47,307	\$ 150,383	\$ 570,111
Liabilities						
Accounts payable	-	66,361	-	-	-	67,801
Due to other funds	-	-	-	-	-	409,627
Total liabilities	-	66,361	-	-	-	477,428
Deferred Inflows of Resources						
Unavailable revenue - property taxes	-	-	-	-	-	3,141
Unavailable revenue - special assessments	-	-	-	-	-	11,709
Total deferred inflow of resources	-	-	-	-	-	14,850
Fund balance (deficit)						
Restricted						
Community development	9,018	-	-	47,307	150,383	350,905
Emergency services	-	-	37,007	-	-	37,007
Unassigned	-	-	-	-	-	(310,079)
Total fund balance (deficit)	9,018	-	37,007	47,307	150,383	77,833
Total liabilities, deferred inflows, and fund balance (deficit)	\$ 9,018	\$ 66,361	\$ 37,007	\$ 47,307	\$ 150,383	\$ 570,111

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2015

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	Real Estate	City Sales Tax Property
Revenues						
General property taxes	\$ 43,758	\$ -	\$ 1,351	\$ 117,097	\$ -	\$ -
Intergovernmental revenue	1,384	-	-	12,898	-	217,630
Miscellaneous revenue	-	8,039	-	-	-	-
Total revenues	<u>45,142</u>	<u>8,039</u>	<u>1,351</u>	<u>129,995</u>	<u>-</u>	<u>217,630</u>
Expenditures						
General government - other	-	-	-	-	-	-
Public safety	-	-	2,524	-	-	-
Culture and recreation	-	-	-	105,399	-	-
Community development	46,398	-	-	-	-	-
Other	-	5,235	-	-	-	-
Total expenditures	<u>46,398</u>	<u>5,235</u>	<u>2,524</u>	<u>105,399</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(1,256)	2,804	(1,173)	24,596	-	217,630
Other financing uses						
Transfers out	-	-	-	-	-	(255,347)
Net change in fund balance	(1,256)	2,804	(1,173)	24,596	-	(37,717)
Fund balance (deficit), beginning of year	<u>1,039</u>	<u>16,882</u>	<u>(309,743)</u>	<u>(23,759)</u>	<u>11,723</u>	<u>150,722</u>
Fund balance (deficit), end of year	<u>\$ (217)</u>	<u>\$ 19,686</u>	<u>\$ (310,916)</u>	<u>\$ 837</u>	<u>\$ 11,723</u>	<u>\$ 113,005</u>

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2015

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
Revenues						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,206
Intergovernmental revenue	43,526	467,079	-	86,662	124,021	953,200
Miscellaneous revenue	280	-	3,750	-	-	12,069
Total revenues	<u>43,806</u>	<u>467,079</u>	<u>3,750</u>	<u>86,662</u>	<u>124,021</u>	<u>1,127,475</u>
Expenditures						
General government - other	-	467,079	-	118,353	-	585,432
Public safety	-	-	-	-	-	2,524
Culture and recreation	-	-	-	-	-	105,399
Community development	-	-	-	-	-	46,398
Other	112,683	-	630	-	68,002	186,550
Total expenditures	<u>112,683</u>	<u>467,079</u>	<u>630</u>	<u>118,353</u>	<u>68,002</u>	<u>926,303</u>
Excess (deficiency) of revenues over (under) expenditures	(68,877)	-	3,120	(31,691)	56,019	201,172
Other financing uses						
Transfers out	-	-	-	-	(55,406)	(310,753)
Net change in fund balance	(68,877)	-	3,120	(31,691)	613	(109,581)
Fund balance (deficit), beginning of year	<u>77,895</u>	<u>-</u>	<u>33,887</u>	<u>78,998</u>	<u>149,770</u>	<u>187,414</u>
Fund balance (deficit), end of year	<u>\$ 9,018</u>	<u>\$ -</u>	<u>\$ 37,007</u>	<u>\$ 47,307</u>	<u>\$ 150,383</u>	<u>\$ 77,833</u>

City of Valley City, North Dakota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2015

	Sidewalk Curb & Gutter Projects	Storm Sewer Projects	Storm Sewer 32	Underground Construction	Total Nonmajor Capital Projects Funds
Assets					
Due from other governmental units	\$ -	\$ -	\$ 2,959	\$ -	\$ 2,959
Liabilities and Fund Deficit					
Liabilities					
Accounts payable	\$ -	\$ 8,092	\$ 9,678	\$ 12,145	\$ 29,915
Due to other funds	600	35,956	24,735	95,437	156,728
Total liabilities	600	44,048	34,413	107,582	186,643
Fund Deficit					
Unassigned	(600)	(44,048)	(31,454)	(107,582)	(183,684)
Total liabilities, deferred inflows and fund deficit	\$ -	\$ -	\$ 2,959	\$ -	\$ 2,959

City of Valley City, North Dakota
 Nonmajor Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2015

	Sidewalk Curb & Gutter Projects	Storm Sewer Projects	Storm Sewer 32	Underground Construction	Total Nonmajor Capital Projects Funds
Revenues					
Special assessments	\$ 30,451	\$ 11,807	\$ -	\$ -	\$ 42,258
Intergovernmental revenue	-	-	160,501	-	160,501
	<u>30,451</u>	<u>11,807</u>	<u>160,501</u>	<u>-</u>	<u>202,759</u>
Expenditures					
Capital outlay	129,167	19,673	266,546	107,582	522,968
Deficiency of revenues under expenditures	(98,716)	(7,866)	(106,045)	(107,582)	(320,209)
Other financing sources					
Bonds issued	-	106,454	-	-	106,454
Transfers in	98,116	-	136,511	-	234,627
	<u>98,116</u>	<u>106,454</u>	<u>136,511</u>	<u>-</u>	<u>341,081</u>
Net change in fund balance	(600)	98,588	30,466	(107,582)	20,872
Fund deficit, beginning of year	-	(142,636)	(61,920)	-	(204,556)
Fund deficit, end of year	<u>\$ (600)</u>	<u>\$ (44,048)</u>	<u>\$ (31,454)</u>	<u>\$ (107,582)</u>	<u>\$ (183,684)</u>

City of Valley City, North Dakota
 General Operations Department
 Comparative Balance Sheets
 December 31, 2015 and 2014

	2015	2014
Assets		
Due from other funds	\$ 1,466,758	\$ 1,566,482
Receivables		
Accounts	15,824	26,774
Special Assessments		
Delinquent	-	275
Property taxes	17,246	15,864
Due from other governmental units	150,538	253,055
Prepaid items	2,431	3,588
Total assets	\$ 1,652,797	\$ 1,866,038
 Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 101,218	\$ 128,661
Other liabilities	46,460	41,392
Deferred inflows	17,246	16,139
Total liabilities	164,924	186,192
 Fund Balance		
Nonspendable		
Prepaid items	2,431	3,588
Assigned	50,000	81,025
Unassigned	1,435,442	1,595,233
Total fund balance	1,487,873	1,679,846
Total liabilities and fund balance	\$ 1,652,797	\$ 1,866,038

City of Valley City, North Dakota
 General Operations Department
 Schedule of Revenues – Budget to Actual
 Year Ended December 31, 2015
 (With Comparative Totals for 2014)

	2015			2014
	Original and Final Budget	Actual	Variance With Final Budget	Actual
Revenues				
General property taxes	\$ 1,032,400	\$ 1,002,672	\$ (29,728)	\$ 895,080
Special assessments	2,000	4,939	2,939	6,181
Licenses and permits				
Business	35,400	37,460	2,060	38,359
Nonbusiness	7,500	7,526	26	7,901
Animal	1,700	1,869	169	771
	<u>44,600</u>	<u>46,855</u>	<u>2,255</u>	<u>47,031</u>
Intergovernmental revenue				
State revenue sharing	555,000	501,716	(53,284)	583,365
State grants	10,000	21,566	11,566	23,957
Cigarette tax	21,000	21,373	373	21,708
Telecommunications tax	8,450	8,478	28	79,439
Homestead credit	20,000	31,647	11,647	24,368
Miscellaneous	1,500	4,290	2,790	4,129
	<u>615,950</u>	<u>589,070</u>	<u>(26,880)</u>	<u>736,966</u>
Fines and forfeitures				
City fines	84,000	107,503	23,503	91,008
Miscellaneous revenue				
Interest earnings	1,000	10,846	9,846	9,311
Rents	39,000	40,387	1,387	37,386
Insurance reimbursements	1,000	913	(87)	1,170
Miscellaneous revenue	48,460	52,279	3,819	25,871
Franchise fee	20,000	22,423	2,423	24,347
Other fees	16,500	40,779	24,279	26,830
	<u>125,960</u>	<u>167,627</u>	<u>41,667</u>	<u>124,915</u>
Total revenues	<u>\$ 1,904,910</u>	<u>\$ 1,918,666</u>	<u>\$ 13,756</u>	<u>\$ 1,901,181</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures -- Budget to Actual
 Year Ended December 31, 2015
 (With Comparative Totals for 2014)

	2015			2014
	Original and Final Budget	Actual	Variance With Final Budget	Actual
Expenditures				
General Government				
Council and mayor				
Salaries	\$ 42,550	\$ 44,968	\$ (2,418)	\$ 42,603
Miscellaneous expenditures	9,150	9,887	(737)	12,936
	<u>51,700</u>	<u>54,855</u>	<u>(3,155)</u>	<u>55,539</u>
Municipal court				
Salaries	82,698	82,290	408	63,825
Legal	5,000	3,795	1,205	3,520
Miscellaneous expense	15,490	15,704	(214)	12,796
	<u>103,188</u>	<u>101,789</u>	<u>1,399</u>	<u>80,141</u>
Assessor				
Salaries	121,328	121,739	(411)	103,806
Travel	2,000	1,077	923	1,395
BCBS self funding claims	9,566	10,801	(1,235)	8,657
Miscellaneous expense	25,250	19,324	5,926	22,274
	<u>158,144</u>	<u>152,941</u>	<u>5,203</u>	<u>136,132</u>
Auditor & City Administrator				
Salaries	263,045	272,556	(9,511)	238,065
Travel	2,700	2,710	(10)	980
Office supplies	4,400	2,714	1,686	3,082
Operating expenditures	20,160	14,589	5,571	16,922
	<u>290,305</u>	<u>292,569</u>	<u>(2,264)</u>	<u>259,049</u>
Attorney				
Salaries and legal	53,910	67,657	(13,747)	70,934
Operating expenditures	650	345	305	-
	<u>54,560</u>	<u>68,002</u>	<u>(13,442)</u>	<u>70,934</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2015
 (With Comparative Totals for 2014)

	2015		2014	
	Original and Final Budget	Actual	Variance With Final Budget	Actual
City Buildings				
Utilities	32,200	27,972	4,228	28,647
Operating expense	37,900	11,936	25,964	10,897
Repairs and maintenance	29,252	10,927	18,325	11,222
	<u>99,352</u>	<u>50,835</u>	<u>48,517</u>	<u>50,766</u>
Nondepartmental				
Blue Cross self funding	13,260	13,441	(181)	8,657
Blue Cross premium	475	619	(144)	860
Insurance	11,207	9,890	1,317	9,341
Audit	18,000	15,165	2,835	14,225
Miscellaneous	47,726	18,581	29,145	11,472
	<u>90,668</u>	<u>57,696</u>	<u>32,972</u>	<u>44,555</u>
Total general government	<u>847,917</u>	<u>778,687</u>	<u>69,230</u>	<u>697,116</u>
Public safety				
Police department				
Salaries	938,630	952,598	(13,968)	763,793
Investigation	16,000	16,000	-	15,000
Employee pension	64,025	61,058	2,967	48,352
Insurance	22,860	13,740	9,120	13,763
Operating expenditures	177,400	136,966	40,434	143,565
Building upkeep	3,000	96	2,904	1,657
Capital outlay	5,000	8,558	(3,558)	7,959
	<u>1,226,915</u>	<u>1,189,016</u>	<u>37,899</u>	<u>994,089</u>
Fire department				
Salaries	262,139	259,524	2,615	236,061
Insurance	4,200	3,256	944	2,471
Operating expenditures	68,850	55,008	13,842	70,522
Building upkeep	4,500	2,278	2,222	5,339
Capital outlay	2,000	1,023	977	1,685
	<u>341,689</u>	<u>321,089</u>	<u>20,600</u>	<u>316,078</u>
Civil defense				
Operating expenditures	3,000	141	2,859	105
Health	22,050	22,050	-	22,050
Total public safety	<u>1,593,654</u>	<u>1,532,296</u>	<u>61,358</u>	<u>1,332,322</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2015
 (With Comparative Totals for 2014)

	2015			2014
	Original and Final Budget	Actual	Variance With Final Budget	Actual
General government - Other				
Planning and zoning	48,525	18,101	30,424	13,610
Community programs	22,600	21,178	1,422	21,100
Paving operating expenditures	56,000	25,716	30,284	44,237
Miscellaneous	105,050	5,014	100,036	-
Total general government - other	<u>232,175</u>	<u>70,009</u>	<u>162,166</u>	<u>78,947</u>
Culture and recreation				
Recreation center				
Operating expenditures	20,000	18,597	1,403	17,507
Auditorium/Armory				
Management fee	20,000	20,000	-	20,000
Operating expenditures	-	-	-	3,645
	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>23,645</u>
Total culture and recreation	<u>40,000</u>	<u>38,597</u>	<u>1,403</u>	<u>41,152</u>
Economic development				
Industrial development	2,200	913	1,287	31
Total expenditures	<u>\$ 2,715,946</u>	<u>\$ 2,420,502</u>	<u>\$ 295,444</u>	<u>\$ 2,149,568</u>



Additional Reports
December 31, 2015

City of Valley City, North Dakota



CPAs & BUSINESS ADVISORS

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

The Board of City Commissioners
City of Valley City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valley City, North Dakota (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 25, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but are not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-A and 2015-B as described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2015-C as described in the accompanying schedule of findings to be a significant deficiency.

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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 the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
July 25, 2016

Section I – Financial Statement Findings

Material Weakness

2015-A Segregation of Duties Surrounding Recording and Approval of Journal Entries

Condition – The City has a lack of segregation of duties in the area of recording and approving manual journal entries.

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the recording and authorization (approval) of journal entries.

Effect – Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause – The City is continuing to develop procedures and identify all risk areas that require expanded controls.

Recommendation – Segregation of formal review of journal entries for enterprise and governmental funds would assist in mitigating the risk of fraud or misstatements to the financial statements.

Management's Response – The City has implemented previous recommendations from the auditors to improve the segregation of duties and internal control structure. Management will implement the additional recommendations with the intent of ultimately alleviating the finding for fiscal year 2016.

Material Weakness

2015-B Preparation of Financial Statements

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

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

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

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

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

Management's Response – Due to cost constraints, the City will continue to have the auditor's draft the financial statements and accompanying notes to the financial statements, as well as formulate the necessary adjusting journal entries to convert the fund financial statements in accordance with GASB Statement No. 34.

Significant Deficiency

2015-C Inaccurate Physical Counts of Inventory in the Water Department

Condition – Prior to procedures implemented during the year ended December 31, 2015 there were inadequate procedures in place to allow for accurate counts of inventory.

Criteria – A good system of internal accounting control contemplates an adequate system for accurate counts of inventory.

Effect – This control deficiency could result in inaccurate information.

Cause – During the year the City did not have an internal control system designed to identify accurately the counts of inventory in the Water fund.

Recommendation – We recommend that the City verify that the procedures implemented in fiscal year 2015 have resulted in physical counts of inventory, throughout the year and at year-end, to be complete and accurate so as to ensure finding is alleviated in the upcoming year.

Management's Response – The City anticipates that efforts have corrected this finding and does not anticipate continued issues in fiscal year 2016.