



Financial Statements  
December 31, 2016

# City of Valley City, North Dakota

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City of Valley City, North Dakota  
Elected and Appointed Officials (Unaudited)  
December 31, 2016

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<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Dave Carlsrud	President of City Commission	6/30/2018
Matthew Pedersen	Vide President of City Commission	6/30/2018
Dewey Magnuson	City Commissioner	6/30/2018
Richard Ross	City Commissioner	6/30/2020
Mike Bishop	City Commissioner	6/30/2020
<u>Administration</u>		
David C. Schelkoph	City Administrator	
Avis Richter	Finance Director	
Gary Jacobson	Accountant/Office Manager	



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valley City, North Dakota (the City), as of and for the year ended December 31, 2016, 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, 2016 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 and budgetary comparison schedules for the Infrastructure Renewal and Replacement special revenue funds 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 14, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
July 14, 2017

City of Valley City, North Dakota  
Statement of Net Position  
December 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,816,234	\$ 4,293,619	\$ 8,109,853
Restricted cash	-	384,493	384,493
Receivables			
Accounts	888,703	797,256	1,685,959
Unbilled revenues	5,565	242,659	248,224
Interest	-	299	299
Property taxes	23,308	-	23,308
Special assessments	6,280,356	-	6,280,356
Due from other governmental units	604,653	25,291	629,944
Interfund balances	1,099,783	(1,099,783)	-
Prepaid items	-	54,465	54,465
Inventory	-	476,090	476,090
Unearned debits	-	4,479	4,479
Capital assets			
Land	173,800	424,693	598,493
Construction in progress	18,595,167	10,287	18,605,454
Infrastructure	31,394,073	-	31,394,073
Buildings and improvements	2,095,536	25,210,221	27,305,757
Machinery and equipment	1,044,168	7,730,788	8,774,956
Vehicles	3,006,006	-	3,006,006
Mains and lines	-	41,381,671	41,381,671
Less accumulated depreciation	(8,752,297)	(32,741,377)	(41,493,674)
Total assets	<u>60,275,055</u>	<u>47,195,151</u>	<u>107,470,206</u>
<b>Liabilities</b>			
Accounts payable	857,442	728,601	1,586,043
Accrued interest payable	89,407	9,475	98,882
Other liabilities	69,871	135,013	204,884
Long-term liabilities			
Due within one year	1,065,397	381,809	1,447,206
Due in more than one year	12,196,076	1,815,000	14,011,076
Total liabilities	<u>14,278,193</u>	<u>3,069,898</u>	<u>17,348,091</u>
<b>Net position</b>			
Net investment in capital assets	34,395,134	39,833,300	74,228,434
Restricted	7,479,067	384,493	7,863,560
Unrestricted	4,122,661	3,907,460	8,030,121
Total net position	<u>\$ 45,996,862</u>	<u>\$ 44,125,253</u>	<u>\$ 90,122,115</u>

City of Valley City, North Dakota  
Statement of Activities  
Year Ended December 31, 2016

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
<b>Primary government</b>							
Governmental activities							
General government	\$ 3,448,926	\$ 847,512	\$ 5,463,695	\$ -	\$ 2,862,281	\$ -	\$ 2,862,281
Public safety	1,430,175	87,631	11,648	261,918	(1,068,978)	-	(1,068,978)
Public works	107,006	808,185	-	-	701,179	-	701,179
Culture and recreation	329,972	-	226,385	-	(103,587)	-	(103,587)
Economic development	927,211	-	-	-	(927,211)	-	(927,211)
Interest on long-term debt	314,233	-	-	-	(314,233)	-	(314,233)
Total governmental activities	<u>6,557,523</u>	<u>1,743,328</u>	<u>5,701,728</u>	<u>261,918</u>	<u>1,149,451</u>	<u>-</u>	<u>1,149,451</u>
Business-type activities							
Electric	6,547,915	7,167,298	-	-	-	619,383	619,383
Water	2,355,208	1,300,367	-	-	-	(1,054,841)	(1,054,841)
Sewer facility	766,526	601,299	-	-	-	(165,227)	(165,227)
Garbage	1,001,656	972,688	-	-	-	(28,968)	(28,968)
Total business-type activities	<u>10,671,305</u>	<u>10,041,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(629,653)</u>	<u>(629,653)</u>
Total government	<u>\$ 17,228,828</u>	<u>\$ 11,784,980</u>	<u>\$ 5,701,728</u>	<u>\$ 261,918</u>	<u>1,149,451</u>	<u>(629,653)</u>	<u>519,798</u>
General revenues							
Property taxes and special assessments					2,238,074	-	2,238,074
Sales and use tax					1,558,459	-	1,558,459
State aid					1,012,605	-	1,012,605
Unrestricted investment earnings					19,505	11,959	31,464
Miscellaneous					68,691	62,330	131,021
Transfers					860,000	(860,000)	-
Total general revenue and transfers					<u>5,757,334</u>	<u>(785,711)</u>	<u>4,971,623</u>
Change in net position					6,906,785	(1,415,364)	5,491,421
Net position - beginning					39,090,077	45,540,617	84,630,694
Net position - ending					<u>\$ 45,996,862</u>	<u>\$ 44,125,253</u>	<u>\$ 90,122,115</u>



City of Valley City, North Dakota  
 Governmental Funds  
 Balance Sheet  
 December 31, 2016

	General	Paving Projects	Infrastructure Renewal & Replacement	Watermain Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 950,857	\$ -	\$ -	\$ -	\$ 2,069,813	\$ 795,564	\$ 3,816,234
Due from other funds	1,384,172	-	3,050,474	-	600,000	653,570	5,688,216
Receivables							
Accounts	863,251	-	19,744	-	-	5,708	888,703
Taxes receivable - delinquent	-	-	-	-	-	3,193	3,193
Unbilled revenues	-	-	5,565	-	-	-	5,565
Property taxes	19,938	-	-	-	177	-	20,115
Special assessments							
Current	112,059	16,222	-	23,285	440,955	2,250	594,771
Delinquent	3,482	-	-	-	24,932	-	28,414
Deferred	450,528	179,195	-	257,213	4,764,610	5,625	5,657,171
Interfund	1,000	-	-	-	437,302	-	438,302
Due from other governmental units	117,222	-	160,063	-	54,026	273,342	604,653
Total assets	<u>\$ 3,902,509</u>	<u>\$ 195,417</u>	<u>\$ 3,235,846</u>	<u>\$ 280,498</u>	<u>\$ 8,391,815</u>	<u>\$ 1,739,252</u>	<u>\$ 17,745,337</u>
<b>Liabilities and Fund Balance</b>							
<b>Liabilities</b>							
Accounts payable	\$ 678,237	\$ 82,542	\$ -	\$ 1,881	\$ 4,719	\$ 90,063	\$ 857,442
Due to other funds	810,611	1,798,939	-	1,197,792	43,706	1,175,687	5,026,735
Other liabilities	69,871	-	-	-	-	-	69,871
Total liabilities	<u>1,558,719</u>	<u>1,881,481</u>	<u>-</u>	<u>1,199,673</u>	<u>48,425</u>	<u>1,265,750</u>	<u>5,954,048</u>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue-property taxes	19,938	-	-	-	177	3,193	23,308
Unavailable revenue-special assessments	567,068	195,417	-	280,497	5,667,798	7,875	6,718,655
Total deferred inflows of resources	<u>587,006</u>	<u>195,417</u>	<u>-</u>	<u>280,497</u>	<u>5,667,975</u>	<u>11,068</u>	<u>6,741,963</u>
<b>Fund Balance (Deficit)</b>							
<b>Restricted for:</b>							
Debt service	-	-	-	-	2,675,415	-	2,675,415
Emergency services	-	-	-	-	-	37,007	37,007
Community development	-	-	-	-	-	1,530,799	1,530,799
Infrastructure	-	-	3,235,846	-	-	-	3,235,846
Assigned	50,000	-	-	-	-	-	50,000
Unassigned	1,706,784	(1,881,481)	-	(1,199,672)	-	(1,105,372)	(2,479,741)
Total fund balance (deficit)	<u>1,756,784</u>	<u>(1,881,481)</u>	<u>3,235,846</u>	<u>(1,199,672)</u>	<u>2,675,415</u>	<u>462,434</u>	<u>5,049,326</u>
Total liabilities, deferred inflows of resources, and fund balance (deficit)	<u>\$ 3,902,509</u>	<u>\$ 195,417</u>	<u>\$ 3,235,846</u>	<u>\$ 280,498</u>	<u>\$ 8,391,815</u>	<u>\$ 1,739,252</u>	<u>\$ 17,745,337</u>

The Notes to Financial Statements are an integral part of this statement.

City of Valley City, North Dakota  
Governmental Funds  
Reconciliation of the Balance Sheet to the Statement of Net Position  
December 31, 2016

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Total Fund Balances – Governmental Funds	\$ 5,049,326
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.	47,556,453
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.	6,741,963
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:	
Special assessment bonds	(9,498,072)
Sales tax revenue bonds	(3,235,614)
Capital lease payable	(427,633)
Compensated absences	(100,154)
Accrued interest	(89,407)
	<hr/>
Total Net Position – Governmental Activities	<u>\$ 45,996,862</u>

City of Valley City, North Dakota  
 Governmental Funds  
 Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Year Ended December 31, 2016

	General	Paving Projects	Infrastructure Renewal & Replacement	Watermain Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
General property taxes	\$ 1,046,306	\$ -	\$ -	\$ -	\$ 228,434	\$ 166,943	\$ 1,441,683
Special assessments	109,515	43,211	-	61,890	858,781	64,085	1,137,482
Franchise fees	130,431	-	417,230	-	-	-	547,661
Licenses and permits	44,697	-	-	-	-	-	44,697
Intergovernmental revenue	6,303,499	261,918	-	-	18,195	268,906	6,852,518
Fines and forfeitures	81,098	-	-	-	-	-	81,098
Sales tax	-	-	892,542	-	-	1,332,601	2,225,143
Miscellaneous revenue	299,897	300	1,896	-	234,168	12,711	548,972
Total revenues	<u>8,015,443</u>	<u>305,429</u>	<u>1,311,668</u>	<u>61,890</u>	<u>1,339,578</u>	<u>1,845,246</u>	<u>12,879,254</u>
<b>Expenditures</b>							
<b>Current</b>							
General government	878,958	-	-	-	-	-	878,958
Public safety	2,286,836	-	-	-	-	435	2,287,271
General government - other	44,108	-	-	-	-	457,595	501,703
Culture and recreation	38,608	-	-	-	-	139,639	178,247
Community development	-	-	-	-	-	554,523	554,523
Permanent flood protection	260,442	-	-	-	-	-	260,442
Miscellaneous	186,655	-	8,773	-	-	197,201	392,629
Capital outlay	6,807,616	1,629,486	-	925,451	-	1,437,157	10,799,710
<b>Debt service</b>							
Principal	22,247	-	-	-	2,408,737	-	2,430,984
Interest and fees	15,271	-	-	-	343,874	-	359,145
Total expenditures	<u>10,540,741</u>	<u>1,629,486</u>	<u>8,773</u>	<u>925,451</u>	<u>2,752,611</u>	<u>2,786,550</u>	<u>18,643,612</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,525,298)	(1,324,057)	1,302,895	(863,561)	(1,413,033)	(941,304)	(5,764,358)
<b>Other Financing Sources (Uses)</b>							
Bond proceeds	860,614	-	-	-	1,295,000	-	2,155,614
Discount on bonds	-	-	-	-	(16,187)	-	(16,187)
Transfers in	1,371,916	21,230	-	452,686	46,495	317,777	2,210,104
Transfers out	(558,792)	(179)	(562,775)	-	-	(228,358)	(1,350,104)
Total other financing sources and uses	<u>1,673,738</u>	<u>21,051</u>	<u>(562,775)</u>	<u>452,686</u>	<u>1,325,308</u>	<u>89,419</u>	<u>2,999,427</u>
Net Change in Fund Balance	(851,560)	(1,303,006)	740,120	(410,875)	(87,725)	(851,885)	(2,764,931)
Fund Balance (Deficit), Beginning	2,608,344	(578,475)	2,495,726	(788,797)	2,763,140	1,314,319	7,814,257
Fund Balance (Deficit), Ending	<u>\$ 1,756,784</u>	<u>\$ (1,881,481)</u>	<u>\$ 3,235,846</u>	<u>\$ (1,199,672)</u>	<u>\$ 2,675,415</u>	<u>\$ 462,434</u>	<u>\$ 5,049,326</u>

The Notes to Financial Statements are an integral part of this statement.

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, 2016

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Net Change in Fund Balances - Total Governmental Funds	\$ (2,764,931)
<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	10,741,798
Depreciation expense	(1,210,292)
The net effect of the disposal of capital assets is to decrease net position	(62,000)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds.	(106,888)
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.	21,699
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds.	12,029
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:	
Bonds issued	(2,155,614)
Capital lease retirement	22,247
Bond principal retirement	2,408,737
Change in Net Position of Governmental Activities	<u>\$ 6,906,785</u>

City of Valley City, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in  
Fund Balance – Budget to Actual  
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>			
General property taxes	\$ 1,086,600	\$ 1,046,306	\$ (40,294)
Special assessments	101,000	109,515	8,515
Licenses and permits	43,860	44,697	837
Intergovernmental revenue	10,805,200	6,303,499	(4,501,701)
Fines and forfeitures	92,500	81,098	(11,402)
Franchise fees	149,000	130,431	(18,569)
Miscellaneous	141,420	299,897	158,477
Total revenues	<u>12,419,580</u>	<u>8,015,443</u>	<u>(4,404,137)</u>
<b>Expenditures</b>			
Current			
General government	901,426	878,958	22,468
Public safety	2,382,868	2,286,836	96,032
General government - other	180,150	44,108	136,042
Culture and recreation	39,500	38,608	892
Economic development	2,000	-	2,000
Permanent flood protection	-	260,442	(260,442)
Miscellaneous	50,000	186,655	(136,655)
Capital outlay	11,526,209	6,807,616	4,718,593
Debt Service			
Principal	22,247	22,247	-
Interest and Fees	15,271	15,271	-
Total expenditures	<u>15,082,153</u>	<u>10,540,741</u>	<u>4,578,930</u>
Deficiency of Revenues Under Expenditures	(2,662,573)	(2,525,298)	174,793
<b>Other Financing Sources (Uses)</b>			
Bond proceeds	-	860,614	860,614
Transfers in	1,551,742	1,371,916	(179,826)
Transfers out	(666,338)	(558,792)	107,546
Total other financing sources and uses	<u>885,404</u>	<u>1,673,738</u>	<u>788,334</u>
Net Change in Fund Balance	<u>\$ (1,777,169)</u>	(851,560)	<u>\$ 963,127</u>
Fund Balance, Beginning		<u>2,608,344</u>	
Fund Balance, Ending		<u>\$ 1,756,784</u>	

City of Valley City, North Dakota  
Proprietary Funds  
Statement of Net Position  
December 31, 2016

	Electric	Water	Sewer	Garbage	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 3,208,226	\$ -	\$ 481,692	\$ 603,701	\$ 4,293,619
Accounts receivable - net					
Accounts	567,730	108,966	59,746	60,814	797,256
Accrued interest	-	273	26	-	299
Unbilled revenues	196,174	19,909	11,425	15,151	242,659
Inventories	300,236	175,854	-	-	476,090
Prepaid expenses	54,465	-	-	-	54,465
Due from other governmental units	22,407	2,780	13	91	25,291
Total current assets	<u>4,349,238</u>	<u>307,782</u>	<u>552,902</u>	<u>679,757</u>	<u>5,889,679</u>
<b>Capital assets</b>					
Land	114,385	147,572	113,242	49,494	424,693
Construction in progress	-	10,287	-	-	10,287
Buildings and improvements	630,913	24,001,354	188,313	389,641	25,210,221
Machinery and equipment	4,839,507	1,034,746	494,168	1,362,367	7,730,788
Mains and lines	11,953,147	14,494,920	14,933,604	-	41,381,671
Less accumulated depreciation	(12,902,773)	(12,337,074)	(6,166,011)	(1,335,519)	(32,741,377)
Net capital assets	<u>4,635,179</u>	<u>27,351,805</u>	<u>9,563,316</u>	<u>465,983</u>	<u>42,016,283</u>
Unearned debits	-	4,479	-	-	4,479
Restricted cash	76,650	286,593	21,250	-	384,493
Total assets	<u>9,061,067</u>	<u>27,950,659</u>	<u>10,137,468</u>	<u>1,145,740</u>	<u>48,294,934</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	660,325	26,224	9,534	32,518	728,601
Accrued interest payable	-	8,771	704	-	9,475
Customer deposits	76,650	-	-	-	76,650
Due to other funds	-	661,481	-	-	661,481
Other liabilities	54,462	3,222	197	482	58,363
Interfund special assessments payable	4,418	41,682	424	750	47,274
Current maturities of long-term debt	186,809	180,000	15,000	-	381,809
Total current liabilities	<u>982,664</u>	<u>921,380</u>	<u>25,859</u>	<u>33,750</u>	<u>1,963,653</u>
<b>Long-term debt (net of current portion)</b>					
Bonds payable	-	1,615,000	200,000	-	1,815,000
Interfund special assessments payable	34,684	347,026	4,068	5,250	391,028
Total long-term debt	<u>34,684</u>	<u>1,962,026</u>	<u>204,068</u>	<u>5,250</u>	<u>2,206,028</u>
Total liabilities	<u>1,017,348</u>	<u>2,883,406</u>	<u>229,927</u>	<u>39,000</u>	<u>4,169,681</u>
<b>Net Position</b>					
Net investment in capital assets	4,448,370	25,556,805	9,362,892	465,233	39,833,300
Restricted	76,650	286,593	21,250	-	384,493
Unrestricted	3,518,699	(776,145)	523,399	641,507	3,907,460
Total net position	<u>\$ 8,043,719</u>	<u>\$ 25,067,253</u>	<u>\$ 9,907,541</u>	<u>\$ 1,106,740</u>	<u>\$ 44,125,253</u>

City of Valley City, North Dakota  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2016

	Electric	Water	Sewer	Garbage	Total
<b>Operating Revenues</b>					
Utility sales and service charges	\$ 7,163,473	\$ 1,299,589	\$ 600,780	\$ 817,178	\$ 9,881,020
Forfeited discounts and penalties	3,825	778	519	524	5,646
Landfill fees	-	-	-	154,986	154,986
Total operating revenues	<u>7,167,298</u>	<u>1,300,367</u>	<u>601,299</u>	<u>972,688</u>	<u>10,041,652</u>
<b>Operating Expenses</b>					
Production and pumping	38,717	386,858	-	-	425,575
Cost of power	4,947,162	-	-	-	4,947,162
Distribution expense	312,992	346,992	213,645	-	873,629
Landfill and collections	-	-	-	744,947	744,947
Customer accounts	59,768	18,328	1,210	4,074	83,380
Customer service and information	2,855	-	-	-	2,855
Administration and general	598,670	293,840	108,982	188,668	1,190,160
Depreciation	556,242	1,257,035	440,086	63,300	2,316,663
Costs of services contributed to city	29,846	5,422	114	313	35,695
Total operating expenses	<u>6,546,252</u>	<u>2,308,475</u>	<u>764,037</u>	<u>1,001,302</u>	<u>10,620,066</u>
Operating Income (Loss)	621,046	(1,008,108)	(162,738)	(28,614)	(578,414)
<b>Nonoperating Revenues (Expenses)</b>					
Net merchandising revenue					
(gross revenue of \$204,719)	49,399	9,423	2,816	692	62,330
Interest income	10,971	988	-	-	11,959
Interest on long-term debt	(1,663)	(46,733)	(2,489)	(354)	(51,239)
Total nonoperating revenues (expenses)	<u>58,707</u>	<u>(36,322)</u>	<u>327</u>	<u>338</u>	<u>23,050</u>
Income (Loss) Before Transfers and Capital Contributions	679,753	(1,044,430)	(162,411)	(28,276)	(555,364)
Transfers out	<u>(860,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(860,000)</u>
Change in Net Position	(180,247)	(1,044,430)	(162,411)	(28,276)	(1,415,364)
Net Position, Beginning 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>
Net Position, End of Year	<u>\$ 8,043,719</u>	<u>\$ 25,067,253</u>	<u>\$ 9,907,541</u>	<u>\$ 1,106,740</u>	<u>\$ 44,125,253</u>

City of Valley City, North Dakota  
Proprietary Funds  
Statement of Cash Flows  
Year Ended December 31, 2016

	Electric	Water	Sewer	Garbage	Total
<b>Operating Activities</b>					
Receipts from customers and users	\$ 7,273,980	\$ 1,294,725	\$ 625,275	\$ 1,003,717	\$ 10,197,697
Payments for cost of power	(4,947,162)	-	-	-	(4,947,162)
Payments for employee costs	(16,941)	-	-	-	(16,941)
Payments to other vendors	(862,411)	(1,073,436)	(316,089)	(936,098)	(3,188,034)
Net cash from operating activities	<u>1,447,466</u>	<u>221,289</u>	<u>309,186</u>	<u>67,619</u>	<u>2,045,560</u>
<b>Non-Capital Financing Activities</b>					
Transfer (to) from other funds	(860,000)	-	-	-	(860,000)
Change in interfund balances	-	230,955	-	-	230,955
Net cash from (used for) non-capital financing activities	<u>(860,000)</u>	<u>230,955</u>	<u>-</u>	<u>-</u>	<u>(629,045)</u>
<b>Capital and Related Financing Activities</b>					
Property and equipment additions	(566,073)	(188,360)	(28,740)	-	(783,173)
Payments on long-term debt					
Principal	-	(180,000)	(15,000)	-	(195,000)
Interfund special assessments payable	(4,419)	(38,044)	(424)	(750)	(43,637)
Interest	(1,663)	(46,733)	(2,489)	(354)	(51,239)
Net cash used for capital and related financing activities	<u>(572,155)</u>	<u>(453,137)</u>	<u>(46,653)</u>	<u>(1,104)</u>	<u>(1,073,049)</u>
<b>Investing Activity</b>					
Interest and dividends from investments	10,971	988	-	-	11,959
Change in Cash and Cash Equivalents	26,282	95	262,533	66,515	355,425
Cash and Cash Equivalents - Beginning 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>
Cash and Cash Equivalents - End of Year (including restricted cash)	<u>\$ 3,284,876</u>	<u>\$ 286,593</u>	<u>\$ 502,942</u>	<u>\$ 603,701</u>	<u>\$ 4,678,112</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>					
Operating income (loss)	\$ 621,046	\$ (1,008,108)	\$ (162,738)	\$ (28,614)	\$ (578,414)
Adjustments to reconcile operating income (loss) to net cash from operating activities					
Depreciation	556,242	1,257,035	440,086	63,300	2,316,663
Other income	49,399	9,423	2,816	692	62,330
Changes in assets and liabilities					
Accounts receivable	57,283	(15,065)	21,160	30,337	93,715
Inventories	17,425	(6,709)	-	-	10,716
Prepaid expenses	1,721	-	-	-	1,721
Accounts payable	106,598	(13,623)	7,872	2,001	102,848
Accrued liabilities	-	(1,637)	(50)	-	(1,687)
Customer deposits	27,779	-	-	-	27,779
Other liabilities	13,457	(27)	40	(97)	13,373
Compensated absences payable	(3,484)	-	-	-	(3,484)
Net cash from operating activities	<u>\$ 1,447,466</u>	<u>\$ 221,289</u>	<u>\$ 309,186</u>	<u>\$ 67,619</u>	<u>\$ 2,045,560</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.
- 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, 2016, 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.

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, 2016, as follows:

Paving Projects	1,881,481
Watermain Projects	1,199,672
Nonmajor Governmental Funds	
Emergency	295,122
9th Avenue Northwest	3,269
Library	579
Storm Sewer Projects	69,992
Storm Sewer 32	112,982
Underground Construction	623,428

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, 2016, 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, 2016, 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, 2016

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and cash equivalents			
Deposits	\$ 8,288,646	\$ 8,288,646	\$ -
Petty cash	1,200	1,200	-
Certificates of deposit	204,500	-	204,500
	\$ 8,494,346	\$ 8,289,846	\$ 204,500

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

Cash and cash equivalents - Statement of Net Position	\$ 8,109,853
Restricted cash - Statement of Net Position	384,493
	\$ 8,494,346

**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, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases and Transfers</u>	<u>Decreases and Transfers</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 173,800	\$ -	\$ -	\$ 173,800
Construction in progress	8,627,956	10,489,555	522,344	18,595,167
Total capital assets not being depreciated	<u>8,801,756</u>	<u>10,489,555</u>	<u>522,344</u>	<u>18,768,967</u>
Capital assets, being depreciated:				
Infrastructure	30,871,729	522,344	-	31,394,073
Buildings and improvements	2,095,536	-	-	2,095,536
Machinery and equipment	1,004,015	40,153	-	1,044,168
Vehicles	3,035,555	212,090	241,639	3,006,006
Total capital assets being depreciated	<u>37,006,835</u>	<u>774,587</u>	<u>241,639</u>	<u>37,539,783</u>
Less accumulated depreciation for:				
Infrastructure	4,031,107	784,852	-	4,815,959
Buildings and improvements	1,486,185	80,964	-	1,567,149
Machinery and equipment	858,522	42,476	-	900,998
Vehicles	1,345,830	302,000	179,639	1,468,191
Total accumulated depreciation	<u>7,721,644</u>	<u>1,210,292</u>	<u>179,639</u>	<u>8,752,297</u>
Total capital assets being depreciated, net	<u>29,285,191</u>	<u>(435,705)</u>	<u>62,000</u>	<u>28,787,486</u>
Governmental activities capital assets, net	<u>\$ 38,086,947</u>	<u>\$ 10,053,850</u>	<u>\$ 584,344</u>	<u>\$ 47,556,453</u>

City of Valley City, North Dakota  
Notes to Financial Statements  
December 31, 2016

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 424,693	\$ -	\$ -	\$ 424,693
Construction in progress	176,501	10,000	176,214	10,287
Total capital assets not being depreciated	<u>601,194</u>	<u>10,000</u>	<u>176,214</u>	<u>434,980</u>
Capital assets, being depreciated:				
Buildings and improvements	24,967,690	242,531	-	25,210,221
Machinery and equipment	7,143,980	706,856	120,048	7,730,788
Mains and lines	41,381,671	-	-	41,381,671
Total capital assets being depreciated	<u>73,493,341</u>	<u>949,387</u>	<u>120,048</u>	<u>74,322,680</u>
Less accumulated depreciation	<u>30,544,762</u>	<u>2,316,663</u>	<u>120,048</u>	<u>32,741,377</u>
Total capital assets being depreciated, net	<u>42,948,579</u>	<u>(1,367,276)</u>	<u>-</u>	<u>41,581,303</u>
Business-type activities capital assets, net	<u>\$ 43,549,773</u>	<u>\$ (1,357,276)</u>	<u>\$ 176,214</u>	<u>\$ 42,016,283</u>

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

Governmental activities:		
General government		\$ 47,383
Public safety		129,258
Public works		1,020,667
Culture and recreation		12,984
Total depreciation expense - governmental activities		<u>\$ 1,210,292</u>
Business-type activities:		
Electric		\$ 556,242
Water		1,257,035
Sewer facility		440,086
Garbage		63,300
Total depreciation expense - business-type activities		<u>\$ 2,316,663</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, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 45,000	\$ -	\$ 45,000	\$ -	\$ -
Special assessment bonds	10,391,809	1,295,000	2,188,737	9,498,072	767,205
Sales tax revenue bonds	2,550,000	860,614	175,000	3,235,614	175,000
Capital lease	449,880	-	22,247	427,633	23,038
Compensated absences	121,853	58,880	80,579	100,154	100,154
	<u>13,558,542</u>	<u>2,214,494</u>	<u>2,511,563</u>	<u>13,261,473</u>	<u>1,065,397</u>
Governmental activity long-term debt	<u>\$ 13,558,542</u>	<u>\$ 2,214,494</u>	<u>\$ 2,511,563</u>	<u>\$ 13,261,473</u>	<u>\$ 1,065,397</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 2,205,000	\$ -	\$ 195,000	\$ 2,010,000	\$ 195,000
Compensated absences	190,293	188,722	192,206	186,809	186,809
	<u>2,395,293</u>	<u>188,722</u>	<u>387,206</u>	<u>2,196,809</u>	<u>381,809</u>
Business-type activity long-term debt	<u>\$ 2,395,293</u>	<u>\$ 188,722</u>	<u>\$ 387,206</u>	<u>\$ 2,196,809</u>	<u>\$ 381,809</u>

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 and \$860,614 in sales tax revenue bonds issued in 2016. Proceeds from the bonds were used for economic development, job creation, and for financing the local share of the Phase I Permanent Flood Protection project. Principal and interest paid for the current year was \$231,970. Net sales tax revenue totaled \$2,231,354 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. Payments are made out of the general fund.

The capital lease consists of a motorgrader for \$509,610 with total accumulated depreciation of \$254,805 as of December 31, 2016. 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>
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>\$ 427,633</u>	<u>\$ 60,020</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, 2016, 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>
2017	\$ 942,205	\$ 315,085	\$ 195,000	\$ 21,705
2018	1,216,428	246,013	200,000	19,085
2019	905,331	279,899	200,000	16,465
2020	1,194,356	255,120	205,000	13,720
2021	908,701	229,146	210,000	10,975
2022-2026	4,784,301	735,619	605,000	24,970
2027-2031	1,999,449	202,003	395,000	4,225
2032-2036	344,758	61,354	-	-
2037-2041	250,268	26,261	-	-
2042-2046	155,988	8,278	-	-
2047	31,901	239	-	-
Total	<u>\$ 12,733,686</u>	<u>\$ 2,359,017</u>	<u>\$ 2,010,000</u>	<u>\$ 111,145</u>

City of Valley City, North Dakota  
Notes to Financial Statements  
December 31, 2016

Bonds Payable	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
Governmental activities:				
2003 Bridgeview Estates				
Special Assessment Bonds	5.80	2024	\$ 338,460	\$ 190,174
Tax Increment Financing Bonds of 2008	4.50	2024	825,000	517,898
2008 Special Assessment Bonds	3.50 - 4.30	2017	375,000	40,000
2011 Special Assessment Refunding Bonds	3.55 - 4.00	2031	4,090,000	2,605,000
2013 Refunding Improvement Bond	0.35 - 2.20	2026	955,000	600,000
2013 Sales Tax Revenue Bond	0.50 - 3.00	2028	2,900,000	2,375,000
2015 Improvement Bond	2.00 - 3.25	2040	4,545,000	4,250,000
2016 Refunding Improvement Bond	0.80 - 1.65	2026	1,295,000	1,295,000
2016 Sales Tax Revenue Bond	1.50	2047	860,614	860,614
Total				<u>\$ 12,733,686</u>
Business-type activities:				
2002 Drinking Water Revolving Loan Fund	2.5	2021	\$ 1,500,000	\$ 430,000
Wastewater Treatment Revenue				
Bond, series 2009	0.5	2025	260,000	215,000
Water Treatment Revenue Bond, series 2009	0.5	2030	4,485,031	1,365,000
Total				<u>\$ 2,010,000</u>

During the year the City issued 2016 Refunding Improvement Bonds for \$1,295,000 to refund the outstanding debt of the 2007 G.O. Highway Bonds. The bond term is 10 years, beginning on May 20, 2016. The bonds will be held with an annual interest rate of 0.80 – 1.65%. The refunding resulted in an economic gain of \$149,115 and reduced the total debt service payments over the life of the loan approximately \$159,177. The City also issued a 2016 Sales Tax Revenue Bond for \$860,614. The bond term is 30 years, beginning December 28, 2016. The bonds will be held with an annual interest rate of 1.50%.

### 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, 2016, there were series of Industrial Revenue Bonds outstanding; the aggregate principal amount payable is \$3,230,000. 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, 2016, is as follows:

	Due From Other Funds	Due To Other Funds
General	\$ 1,384,172	\$ 810,611
Infrastructure Renewal & Replacement	3,050,474	-
Watermain Projects	-	1,197,792
Paving Projects	-	1,798,939
Debt Service	600,000	43,706
Other governmental funds	653,570	1,175,687
Water	-	661,481
	\$ 5,688,216	\$ 5,688,216

A summary of the City's interfund special assessment balances at December 31, 2016, is as follows:

	Interfund Special Assessments Receivable	Interfund Special Assessments Payable
General	\$ 1,000	\$ -
Debt Service	437,302	-
Electric	-	39,102
Water	-	388,708
Sewer	-	4,492
Garbage	-	6,000
	\$ 438,302	\$ 438,302

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

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 1,371,916	\$ 558,792
Watermain Projects	452,686	-
Infrastructure Renewal & Replacement	-	562,775
Paving Projects	21,230	179
Debt Service	46,495	-
Non-major governmental	317,777	228,358
Total governmental funds	2,210,104	1,350,104
Proprietary Funds		
Electric	-	860,000
Total transfers	\$ 2,210,104	\$ 2,210,104

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

**Note 8 - Pension Plan**

The City contributes to the self-administered trustee money purchase pension plan, a defined contribution profit-sharing plan, for substantially all employees. Benefit terms, including contribution requirements, for the plan are established and may be amended by the City's Board. The City is required to contribute, at a maximum, 10% of the employees' recognized compensation. The contributions by the employer are credited to a separate bookkeeping account for each individual. Pension contributions and expense in 2016 was \$273,463, including Public Works in the amount of \$162,926. There were no forfeitures in 2016. The City had a liability to the plan at December 31, 2016 of \$7,363.



**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, 2016. For the ongoing Permanent Flood Protection project throughout Valley City the following commitments are outstanding: Phase I Construction of \$300,000 with the City’s cost share of twenty percent or \$60,000. Construction engineering for Phase I has an outstanding commitment of \$69,000. Phase III Permanent Flood Protection Buyout commitment of \$4,600,000 with a 25% local share of \$1,150,000. Phase II Permanent Flood Protection Construction & Engineering of \$16,447,000 with 20% local cost share of \$3,289,400. Construction for Phase II PFP will begin in summer of 2017.

The City entered into a contract with the NDDOT for a mill and overlay project along Main Street for \$1,010,277 with a local cost share of \$150,159. Construction will start in the summer of 2017 and the contract completion date for the project is September 30, 2017.

**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 \$743,776 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.

	2016	2015
Claims incurred but not reported at beginning of year	\$ 24,642	\$ 31,813
Claims incurred	629,496	609,206
Claims paid	(635,901)	(616,377)
Claims incurred but not reported at end of year	\$ 18,237	\$ 24,642

### **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. 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 second 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 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, 2016

# 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, 2016

	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
<b>Revenues</b>										
General property taxes	\$ 1,046,306	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,046,306
Special assessments	-	109,515	-	-	-	-	-	-	-	109,515
Franchise fees	-	-	-	-	-	-	-	130,431	-	130,431
Licenses and permits	44,697	-	-	-	-	-	-	-	-	44,697
Intergovernmental revenue	434,961	-	5,467,672	-	-	-	-	400,866	-	6,303,499
Fines and forfeitures	81,098	-	-	-	-	-	-	-	-	81,098
Miscellaneous revenue	175,924	-	-	-	43,000	-	58,500	877	21,596	299,897
Total revenues	<u>1,782,986</u>	<u>109,515</u>	<u>5,467,672</u>	<u>-</u>	<u>43,000</u>	<u>-</u>	<u>58,500</u>	<u>131,308</u>	<u>422,462</u>	<u>8,015,443</u>
<b>Expenditures</b>										
<b>Current</b>										
General government	878,958	-	-	-	-	-	-	-	-	878,958
Public safety	1,529,146	-	-	-	-	-	-	757,690	-	2,286,836
General government - other	44,108	-	-	-	-	-	-	-	-	44,108
Culture and recreation	38,608	-	-	-	-	-	-	-	-	38,608
Permanent flood protection	-	-	260,442	-	-	-	-	-	-	260,442
Miscellaneous	-	-	-	-	988	185,667	-	-	-	186,655
Capital outlay	32,966	-	6,712,440	8,608	53,602	-	-	-	-	6,807,616
<b>Debt Service</b>										
Principal	-	-	-	-	-	22,247	-	-	-	22,247
Interest	-	-	-	-	-	15,271	-	-	-	15,271
Total expenditures	<u>2,523,786</u>	<u>-</u>	<u>6,972,882</u>	<u>8,608</u>	<u>54,590</u>	<u>223,185</u>	<u>-</u>	<u>-</u>	<u>757,690</u>	<u>10,540,741</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	(740,800)	109,515	(1,505,210)	(8,608)	(11,590)	(223,185)	58,500	131,308	(335,228)	(2,525,298)
<b>Other Financing Sources (Uses)</b>										
Bond proceeds	-	-	860,614	-	-	-	-	-	-	860,614
Transfers in	900,000	-	11,723	8,608	101,585	130,000	-	-	220,000	1,371,916
Transfers out	(330,194)	(102,791)	-	-	-	-	-	(125,807)	-	(558,792)
Total other financing sources and uses	<u>569,806</u>	<u>(102,791)</u>	<u>872,337</u>	<u>8,608</u>	<u>101,585</u>	<u>130,000</u>	<u>-</u>	<u>(125,807)</u>	<u>220,000</u>	<u>1,673,738</u>
Net Change in Fund Balance	(170,994)	6,724	(632,873)	-	89,995	(93,185)	58,500	5,501	(115,228)	(851,560)
Fund Balance (Deficit), Beginning	<u>1,487,873</u>	<u>(334,114)</u>	<u>536,602</u>	<u>-</u>	<u>(19,463)</u>	<u>167,499</u>	<u>464,980</u>	<u>274,454</u>	<u>30,513</u>	<u>2,608,344</u>
Fund Balance (Deficit), Ending	<u>\$ 1,316,879</u>	<u>\$ (327,390)</u>	<u>\$ (96,271)</u>	<u>\$ -</u>	<u>\$ 70,532</u>	<u>\$ 74,314</u>	<u>\$ 523,480</u>	<u>\$ 279,955</u>	<u>\$ (84,715)</u>	<u>\$ 1,756,784</u>

City of Valley City, North Dakota  
 Nonmajor Governmental Funds  
 Combined Balance Sheet  
 December 31, 2016

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 755,872	\$ 39,692	\$ 795,564
Due from other funds	653,570	-	653,570
<b>Receivables</b>			
Accounts	5,708	-	5,708
Taxes receivable - delinquent	3,193	-	3,193
<b>Special Assessments</b>			
Current	2,250	-	2,250
Deferred	5,625	-	5,625
Due from other governmental units	273,342	-	273,342
Total assets	<u>\$ 1,699,560</u>	<u>\$ 39,692</u>	<u>\$ 1,739,252</u>
<b>Liabilities</b>			
Accounts payable	\$ 26,260	\$ 63,803	\$ 90,063
Due to other funds	390,127	785,560	1,175,687
Total liabilities	<u>416,387</u>	<u>849,363</u>	<u>1,265,750</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue-property taxes	3,193	-	3,193
Unavailable revenue-special assessments	7,875	-	7,875
Total deferred inflows of resources	<u>11,068</u>	<u>-</u>	<u>11,068</u>
<b>Fund balance (deficit)</b>			
<b>Restricted</b>			
Community development	1,530,799	-	1,530,799
Emergency services	37,007	-	37,007
Unassigned	(295,701)	(809,671)	(1,105,372)
Total fund balance (deficit)	<u>1,272,105</u>	<u>(809,671)</u>	<u>462,434</u>
Total liabilities, deferred inflows and fund balance (deficit)	<u>\$ 1,699,560</u>	<u>\$ 39,692</u>	<u>\$ 1,739,252</u>

City of Valley City, North Dakota  
 Nonmajor Governmental Funds  
 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Year Ended December 31, 2016

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>			
General property taxes	\$ 166,943	\$ -	\$ 166,943
Special assessments	-	64,085	64,085
Intergovernmental revenue	15,790	253,116	268,906
Sales tax	1,332,601	-	1,332,601
Miscellaneous revenue	12,711	-	12,711
Total revenues	<u>1,528,045</u>	<u>317,201</u>	<u>1,845,246</u>
<b>Expenditures</b>			
General government - other	457,595	-	457,595
Public safety	435	-	435
Culture and recreation	139,639	-	139,639
Community development	554,523	-	554,523
Capital outlay	201,502	1,235,655	1,437,157
Other	197,201	-	197,201
Total expenditures	<u>1,550,895</u>	<u>1,235,655</u>	<u>2,786,550</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(22,850)	(918,454)	(941,304)
<b>Other Financing Sources (Uses)</b>			
Transfers in	24,956	292,821	317,777
Transfers out	(228,217)	(141)	(228,358)
	<u>(203,261)</u>	<u>292,680</u>	<u>89,419</u>
Net Change in Fund Balance	(226,111)	(625,774)	(851,885)
Fund Balance (Deficit), Beginning of Year	<u>1,498,216</u>	<u>(183,897)</u>	<u>1,314,319</u>
Fund Balance (Deficit), End of Year	<u>\$ 1,272,105</u>	<u>\$ (809,671)</u>	<u>\$ 462,434</u>

City of Valley City, North Dakota  
 Nonmajor Special Revenue Funds  
 Combining Balance Sheet  
 December 31, 2016

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	Real Estate	City Sales Tax Economic	City Sales Tax Property
<b>Assets</b>							
Cash and cash equivalents	\$ 656	\$ 11,346	\$ -	\$ -	\$ -	\$ 444,312	\$ 83,873
Due from other funds	-	-	-	-	-	653,570	-
<b>Receivables</b>							
Accounts	-	-	-	-	-	-	-
Taxes receivable - delinquent	829	-	-	2,364	-	-	-
<b>Special Assessments</b>							
Current	-	2,250	-	-	-	-	-
Deferred	-	5,625	-	-	-	-	-
Due from other governmental units	212	-	95,005	611	-	46,162	35,773
<b>Total assets</b>	<u>\$ 1,697</u>	<u>\$ 19,221</u>	<u>\$ 95,005</u>	<u>\$ 2,975</u>	<u>\$ -</u>	<u>\$ 1,144,044</u>	<u>\$ 119,646</u>
<b>Liabilities</b>							
Accounts payable	\$ -	\$ -	\$ -	\$ 1,190	\$ -	\$ 25,000	\$ -
Due to other funds	-	-	390,127	-	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>390,127</u>	<u>1,190</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue - property taxes	829	-	-	2,364	-	-	-
Unavailable revenue - special assessments	-	7,875	-	-	-	-	-
<b>Total deferred inflow of resources</b>	<u>829</u>	<u>7,875</u>	<u>-</u>	<u>2,364</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance (deficit)</b>							
<b>Restricted</b>							
Community development	868	11,346	-	-	-	1,119,044	119,646
Emergency services	-	-	-	-	-	-	-
<b>Unassigned</b>							
<b>Total fund balance (deficit)</b>	<u>868</u>	<u>11,346</u>	<u>(295,122)</u>	<u>(579)</u>	<u>-</u>	<u>1,119,044</u>	<u>119,646</u>
<b>Total liabilities, deferred inflows, and fund balance (deficit)</b>	<u>\$ 1,697</u>	<u>\$ 19,221</u>	<u>\$ 95,005</u>	<u>\$ 2,975</u>	<u>\$ -</u>	<u>\$ 1,144,044</u>	<u>\$ 119,646</u>

City of Valley City, North Dakota  
 Nonmajor Special Revenue Funds  
 Combining Balance Sheet  
 December 31, 2016

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 17,141	\$ -	\$ 37,007	\$ 49,512	\$ 112,025	\$ 755,872
Due from other funds	-	-	-	-	-	653,570
<b>Receivables</b>						
Accounts	-	-	-	5,708	-	5,708
Taxes receivable - delinquent	-	-	-	-	-	3,193
<b>Special Assessments</b>						
Current	-	-	-	-	-	2,250
Deferred	-	-	-	-	-	5,625
Due from other governmental units	7,155	71,545	-	-	16,879	273,342
<b>Total assets</b>	<b>\$ 24,296</b>	<b>\$ 71,545</b>	<b>\$ 37,007</b>	<b>\$ 55,220</b>	<b>\$ 128,904</b>	<b>\$ 1,699,560</b>
<b>Liabilities</b>						
Accounts payable	\$ 16	\$ -	\$ -	\$ 54	\$ -	\$ 26,260
Due to other funds	-	-	-	-	-	390,127
<b>Total liabilities</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>54</b>	<b>-</b>	<b>416,387</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue - property taxes	-	-	-	-	-	3,193
Unavailable revenue - special assessments	-	-	-	-	-	7,875
<b>Total deferred inflow of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,068</b>
<b>Fund balance (deficit)</b>						
<b>Restricted</b>						
Community development	24,280	71,545	-	55,166	128,904	1,530,799
Emergency services	-	-	37,007	-	-	37,007
<b>Unassigned</b>						
Unassigned	-	-	-	-	-	(295,701)
<b>Total fund balance (deficit)</b>	<b>24,280</b>	<b>71,545</b>	<b>37,007</b>	<b>55,166</b>	<b>128,904</b>	<b>1,272,105</b>
<b>Total liabilities, deferred inflows, and fund balance (deficit)</b>	<b>\$ 24,296</b>	<b>\$ 71,545</b>	<b>\$ 37,007</b>	<b>\$ 55,220</b>	<b>\$ 128,904</b>	<b>\$ 1,699,560</b>



City of Valley City, North Dakota  
Nonmajor Special Revenue Funds  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Year Ended December 31, 2016

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	Real Estate	City Sales Tax Economic	City Sales Tax Property
<b>Revenues</b>							
General property taxes	\$ 42,627	\$ -	\$ 371	\$ 123,945	\$ -	\$ -	\$ -
Intergovernmental revenue	1,512	-	-	14,278	-	-	-
Sales tax	-	-	-	-	-	398,921	223,135
Miscellaneous revenue	-	-	-	-	-	12,711	-
Total revenues	<u>44,139</u>	<u>-</u>	<u>371</u>	<u>138,223</u>	<u>-</u>	<u>411,632</u>	<u>223,135</u>
<b>Expenditures</b>							
General government - other	-	-	-	-	-	-	-
Public safety	-	-	435	-	-	-	-
Culture and recreation	-	-	-	139,639	-	-	-
Community development	43,054	-	-	-	-	511,469	-
Capital outlay	-	-	-	-	-	201,502	-
Other	-	8,340	8,747	-	-	-	-
Total expenditures	<u>43,054</u>	<u>8,340</u>	<u>9,182</u>	<u>139,639</u>	<u>-</u>	<u>712,971</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	1,085	(8,340)	(8,811)	(1,416)	-	(301,339)	223,135
<b>Other financing uses</b>							
Transfers in	-	-	24,605	-	-	-	-
Transfers out	-	-	-	-	(11,723)	-	(216,494)
	<u>-</u>	<u>-</u>	<u>24,605</u>	<u>-</u>	<u>(11,723)</u>	<u>-</u>	<u>(216,494)</u>
Net change in fund balance	1,085	(8,340)	15,794	(1,416)	(11,723)	(301,339)	6,641
Fund balance (deficit), beginning of year	<u>(217)</u>	<u>19,686</u>	<u>(310,916)</u>	<u>837</u>	<u>11,723</u>	<u>1,420,383</u>	<u>113,005</u>
Fund balance (deficit), end of year	<u>\$ 868</u>	<u>\$ 11,346</u>	<u>\$ (295,122)</u>	<u>\$ (579)</u>	<u>\$ -</u>	<u>\$ 1,119,044</u>	<u>\$ 119,646</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, 2016

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
<b>Revenues</b>						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 166,943
Intergovernmental revenue	-	-	-	-	-	15,790
Sales tax	44,627	446,271	-	90,728	128,919	1,332,601
Miscellaneous revenue	-	-	-	-	-	12,711
Total revenues	<u>44,627</u>	<u>446,271</u>	<u>-</u>	<u>90,728</u>	<u>128,919</u>	<u>1,528,045</u>
<b>Expenditures</b>						
General government - other	-	374,726	-	82,869	-	457,595
Public safety	-	-	-	-	-	435
Culture and recreation	-	-	-	-	-	139,639
Community development	-	-	-	-	-	554,523
Capital outlay	-	-	-	-	-	201,502
Other	29,365	-	-	-	150,749	197,201
Total expenditures	<u>29,365</u>	<u>374,726</u>	<u>-</u>	<u>82,869</u>	<u>150,749</u>	<u>1,550,895</u>
Excess (deficiency) of revenues over (under) expenditures	15,262	71,545	-	7,859	(21,830)	(22,850)
<b>Other financing uses</b>						
Transfers in	-	-	-	-	351	24,956
Transfers out	-	-	-	-	-	(228,217)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351</u>	<u>(203,261)</u>
Net change in fund balance	15,262	71,545	-	7,859	(21,479)	(226,111)
Fund balance (deficit), beginning of year	<u>9,018</u>	<u>-</u>	<u>37,007</u>	<u>47,307</u>	<u>150,383</u>	<u>1,498,216</u>
Fund balance (deficit), end of year	<u>\$ 24,280</u>	<u>\$ 71,545</u>	<u>\$ 37,007</u>	<u>\$ 55,166</u>	<u>\$ 128,904</u>	<u>\$ 1,272,105</u>

City of Valley City, North Dakota  
 Nonmajor Capital Projects Funds  
 Combining Balance Sheet  
 December 31, 2016

	Sidewalk Curb & Gutter Projects	Storm Sewer Projects	Storm Sewer 32	9th Avenue Northwest	Underground Construction	Total Nonmajor Capital Projects Funds
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 39,692	\$ -	\$ 39,692
<b>Liabilities and Fund Deficit</b>						
<b>Liabilities</b>						
Accounts payable	\$ -	\$ 7,248	\$ 10,282	\$ 42,961	\$ 3,312	\$ 63,803
Due to other funds	-	62,744	102,700	-	620,116	785,560
Total liabilities	-	69,992	112,982	42,961	623,428	849,363
<b>Fund Deficit</b>						
Unassigned	-	(69,992)	(112,982)	(3,269)	(623,428)	(809,671)
Total liabilities, deferred inflows and fund deficit	\$ -	\$ -	\$ -	\$ 39,692	\$ -	\$ 39,692

City of Valley City, North Dakota  
Nonmajor Capital Projects Funds  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Year Ended December 31, 2016

	Sidewalk Curb & Gutter Projects	Storm Sewer Projects	Storm Sewer 32	9th Avenue Northwest	Underground Construction	Total Nonmajor Capital Projects Funds
Revenues						
Special assessments	\$ 64,085	\$ -	\$ -	\$ -	\$ -	\$ 64,085
Intergovernmental revenue	-	-	253,116	-	-	253,116
	<u>64,085</u>	<u>-</u>	<u>253,116</u>	<u>-</u>	<u>-</u>	<u>317,201</u>
Expenditures						
Capital outlay	254,236	115,414	334,503	3,056	528,446	1,235,655
Deficiency of revenues under expenditures	(190,151)	(115,414)	(81,387)	(3,056)	(528,446)	(918,454)
Other financing sources						
Transfers in	190,751	89,470	-	-	12,600	292,821
Transfers out	-	-	(141)	-	-	(141)
	<u>190,751</u>	<u>89,470</u>	<u>(141)</u>	<u>-</u>	<u>12,600</u>	<u>292,680</u>
Net change in fund balance	600	(25,944)	(81,528)	(3,056)	(515,846)	(625,774)
Fund deficit, beginning of year	(600)	(44,048)	(31,454)	(213)	(107,582)	(183,897)
Fund deficit, end of year	<u>\$ -</u>	<u>\$ (69,992)</u>	<u>\$ (112,982)</u>	<u>\$ (3,269)</u>	<u>\$ (623,428)</u>	<u>\$ (809,671)</u>

City of Valley City, North Dakota  
 General Operations Department  
 Schedule of Revenues – Budget to Actual  
 Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues			
General property taxes	\$ 1,086,600	\$ 1,046,306	\$ (40,294)
Special assessments	1,000	-	(1,000)
Licenses and permits			
Business	37,150	35,483	(1,667)
Nonbusiness	5,910	8,614	2,704
Animal	800	600	(200)
	<u>43,860</u>	<u>44,697</u>	<u>837</u>
Intergovernmental revenue			
State revenue sharing	550,000	357,159	(192,841)
State grants	15,000	7,630	(7,370)
Cigarette tax	20,000	19,930	(70)
Telecommunications tax	8,400	8,478	78
Homestead credit	30,000	37,000	7,000
Miscellaneous	3,000	4,764	1,764
	<u>626,400</u>	<u>434,961</u>	<u>(191,439)</u>
Fines and forfeitures			
City fines	92,500	81,098	(11,402)
Miscellaneous revenue			
Interest earnings	4,000	11,311	7,311
Rents	43,000	42,002	(998)
Insurance reimbursements	900	44	(856)
Miscellaneous revenue	49,420	52,245	2,825
Franchise fee	23,000	30,069	7,069
Other fees	21,100	40,253	19,153
	<u>141,420</u>	<u>175,924</u>	<u>34,504</u>
Total revenues	<u>\$ 1,991,780</u>	<u>\$ 1,782,986</u>	<u>\$ (208,794)</u>

City of Valley City, North Dakota  
 General Operations Department  
 Schedule of Expenditures – Budget to Actual  
 Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Expenditures			
General Government			
Council and mayor			
Salaries	\$ 44,702	\$ 42,997	\$ 1,705
Miscellaneous expenditures	9,400	6,748	2,652
	<u>54,102</u>	<u>49,745</u>	<u>4,357</u>
Municipal court			
Salaries	94,730	92,275	2,455
Legal	5,000	1,235	3,765
Miscellaneous expense	20,690	14,942	5,748
	<u>120,420</u>	<u>108,452</u>	<u>11,968</u>
Assessor			
Salaries	123,488	123,549	(61)
Travel	1,600	1,330	270
BCBS self funding claims	9,700	11,068	(1,368)
Miscellaneous expense	25,590	22,395	3,195
	<u>160,378</u>	<u>158,342</u>	<u>2,036</u>
Auditor & City Administrator			
Salaries	270,335	277,910	(7,575)
Travel	3,700	2,557	1,143
Office supplies	4,400	2,321	2,079
Operating expenditures	20,060	19,148	912
	<u>298,495</u>	<u>301,936</u>	<u>(3,441)</u>
Attorney			
Salaries and legal	59,503	147,501	(87,998)
Operating expenditures	650	-	650
	<u>60,153</u>	<u>147,501</u>	<u>(87,348)</u>

City of Valley City, North Dakota  
 General Operations Department  
 Schedule of Expenditures – Budget to Actual  
 Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
City Buildings			
Utilities	33,700	25,194	8,506
Operating expense	35,800	11,546	24,254
Repairs and maintenance	18,342	14,143	4,199
	<u>87,842</u>	<u>50,883</u>	<u>36,959</u>
Nondepartmental			
Blue Cross self funding	12,100	13,072	(972)
Blue Cross premium	563	(3,075)	3,638
Insurance	11,010	9,832	1,178
Audit	18,000	13,585	4,415
Miscellaneous	78,363	28,685	49,678
	<u>120,036</u>	<u>62,099</u>	<u>57,937</u>
Total general government	<u>901,426</u>	<u>878,958</u>	<u>22,468</u>
Public safety			
Police department			
Salaries	994,096	929,454	64,642
Investigation	16,000	16,000	-
Employee pension	70,813	64,481	6,332
Insurance	19,700	18,388	1,312
Operating expenditures	158,650	130,008	28,642
Building upkeep	2,000	1,400	600
Capital outlay	7,100	6,770	330
	<u>1,268,359</u>	<u>1,166,501</u>	<u>101,858</u>
Fire department			
Salaries	266,777	260,486	6,291
Insurance	3,900	4,455	(555)
Operating expenditures	68,125	74,513	(6,388)
Building upkeep	10,000	6,484	3,516
Capital outlay	5,600	112	5,488
	<u>354,402</u>	<u>346,050</u>	<u>8,352</u>
Civil defense			
Operating expenditures	3,000	327	2,673
Health	<u>23,150</u>	<u>23,150</u>	<u>-</u>
Total public safety	<u>1,648,911</u>	<u>1,536,028</u>	<u>112,883</u>

City of Valley City, North Dakota  
 General Operations Department  
 Schedule of Expenditures – Budget to Actual  
 Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
General government - Other			
Planning and zoning	47,500	12,392	35,108
Community programs	27,100	26,600	500
Paving operating expenditures	50,000	26,084	23,916
Miscellaneous	<u>105,550</u>	<u>5,116</u>	<u>100,434</u>
Total general government - other	<u>230,150</u>	<u>70,192</u>	<u>159,958</u>
Culture and recreation			
Recreation center			
Operating expenditures	<u>19,500</u>	<u>18,608</u>	<u>892</u>
Auditorium/Armory			
Management fee	<u>20,000</u>	<u>20,000</u>	<u>-</u>
	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total culture and recreation	<u>39,500</u>	<u>38,608</u>	<u>892</u>
Economic development			
Industrial development	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total expenditures	<u>\$ 2,821,987</u>	<u>\$ 2,523,786</u>	<u>\$ 298,201</u>





Additional Reports  
December 31, 2016

# City of Valley City, North Dakota



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

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, 2016, 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 14, 2017.

**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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider to be a significant deficiency, item 2016-A.

**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 audit findings. 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
July 14, 2017

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**Section I – Financial Statement Findings**

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**Significant Deficiency**

**2016-A            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.

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