

CITY OF VELVA

AUDIT REPORT

December 31, 2012

**CITY OF VELVA
VELVA, NORTH DAKOTA**

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For The Year Ended December 31, 2012

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CITY OF VELVA

CITY OFFICIALS

December 31, 2012

Ken Fox	Mayor/President
J.D. Larson	Commissioner
James Anderson	Commissioner
Scott Blotter	Commissioner
Darren Johnson	Commissioner
Carol Bickler	City Auditor

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Velva
Velva, 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 Velva, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 involves 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 – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Velva, North Dakota as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows – modified cash basis thereof for the year then ended in conformity with the modified cash basis of accounting.

INDEPENDENT AUDITOR'S REPORT

Basis of Accounting

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 26 through 30 be presented to supplement the basic financial statements. Such 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 for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 for placing 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, on our consideration of the City of Velva's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Velva's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
December 31, 2014

CITY OF VELVA
Statement of Net Position - Modified Cash Basis
December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 553,172	\$ 448,131	\$ 1,001,303
Investments	228,667	-	228,667
Total Current Assets	781,839	448,131	1,229,970
Capital Assets:			
Infrastructure	747,364	2,845,077	3,592,441
Buildings	972,241	23,400	995,641
Equipment	323,875	71,631	395,506
Accumulated Depreciation	(1,072,167)	(480,695)	(1,552,862)
Total Capital Assets	971,313	2,459,413	3,430,726
TOTAL ASSETS	1,753,152	2,907,544	4,660,696
LIABILITIES			
Long-Term Liabilities:			
Portion Due or Payable within One Year			
Improvement Bonds Payable	20,000	-	20,000
Loans Payable	23,727	-	23,727
General Obligation Bonds	26,241		26,241
Water State Revolving Bonds Payable	-	19,000	19,000
Special Assessment Bonds Payable	-	85,000	85,000
Portion Due or Payable after One Year			
Improvement Bonds Payable	45,000	-	45,000
Loans Payable	94,672	-	94,672
General Obligation Bonds	486,786		486,786
Water State Revolving Bonds Payable	-	272,919	272,919
Special Assessment Bonds Payable	-	670,000	670,000
Compensated Absences Payable	12,055	-	12,055
TOTAL LIABILITIES	708,481	1,046,919	1,755,400
NET POSITION			
Net Investment in Capital Assets	274,887	1,412,494	1,687,381
Restricted for:			
Debt Service	121,859	78,294	200,153
Special Purposes	758,115	-	758,115
Unrestricted	(110,190)	369,837	259,647
TOTAL NET POSITION	\$ 1,044,671	\$ 1,860,625	\$ 2,905,296

The accompanying notes are an integral part of this statement.

CITY OF VELVA
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
<u>Governmental Activities</u>							
General Government	\$ 190,577	\$ 19,847	\$ -	\$ -	\$ (170,730)		\$ (170,730)
Public Safety	73,714	-	-	-	(73,714)		(73,714)
Highways and Streets	156,258	-	163,313	-	7,055		7,055
Health and Welfare	8,248	-	-	-	(8,248)		(8,248)
Culture and Recreation	17,224	-	-	-	(17,224)		(17,224)
Economic Development	38,629	-	-	-	(38,629)		(38,629)
Miscellaneous	135,978	-	192,374	-	56,396		56,396
Interest on Long-Term Debt	18,775	-	-	-	(18,775)		(18,775)
Total Governmental Activities	<u>639,403</u>	<u>19,847</u>	<u>355,687</u>	<u>-</u>	<u>(263,869)</u>		<u>(263,869)</u>
<u>Business-type Activities</u>							
Water & Sewer	257,717	262,768	-	-		\$ 5,051	5,051
Garbage	66,245	60,854	-	-		(5,391)	(5,391)
Water Improvement District 2005-1	66,467	-	-	176,747		110,280	110,280
Nonmajor Enterprise Funds	7,915	5,308	-	-		(2,607)	(2,607)
Total Business-type Activities	<u>398,344</u>	<u>328,930</u>	<u>-</u>	<u>176,747</u>		<u>107,333</u>	<u>107,333</u>
Total Primary Government	<u>\$ 1,037,747</u>	<u>\$ 348,777</u>	<u>\$ 355,687</u>	<u>\$ 176,747</u>	<u>(263,869)</u>	<u>107,333</u>	<u>(156,536)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					160,886	-	160,886
Property Taxes, Levied for Special Reserve					35,355	-	35,355
City Sales Tax					192,241	-	192,241
Oil and Gas Tax					5,627	-	5,627
Intergovernmental Revenue, Unrestricted					116,547	-	116,547
Interest Income					9,098	-	9,098
Miscellaneous Revenue					17,058	-	17,058
Sale of Fixed Assets					15,105	-	15,105
Transfers					(33,533)	33,533	-
Total General Revenues and Transfers					<u>518,384</u>	<u>33,533</u>	<u>551,917</u>
Change in Net Position					254,515	140,866	395,381
Net Position - January 1					790,156	1,719,759	2,509,915
Net Position - December 31					<u>\$ 1,044,671</u>	<u>\$ 1,860,625</u>	<u>\$ 2,905,296</u>

The accompanying notes are an integral part of this statement.

CITY OF VELVA
 Balance Sheet - Modified Cash Basis - Governmental Funds
 December 31, 2012

	Major Funds						
	General	Road & Bridge	Dike & Flood	Sales Tax - Water & Sewer	Velva Sewer Improvements - 2011	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 77,675	\$ 188,422	\$ -	\$ 137,147	\$ -	\$ 149,928	\$ 553,172
Investments	-	-	-	114,843	-	113,824	228,667
Due from Other Funds	<u>6,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,707</u>
TOTAL ASSETS	<u>\$ 84,382</u>	<u>\$ 188,422</u>	<u>\$ -</u>	<u>\$ 251,990</u>	<u>\$ -</u>	<u>\$ 263,752</u>	<u>\$ 788,546</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Due to Other Funds	\$ -	\$ -	\$ 1,206	\$ -	\$ 5,501	\$ -	\$ 6,707
Fund Balances:							
Restricted for:							
Debt Service	-	-	-	-	-	121,859	121,859
Assigned for Special Revenue	-	188,422	-	251,990	-	317,703	758,115
Unassigned	<u>84,382</u>	<u>-</u>	<u>(1,206)</u>	<u>-</u>	<u>(5,501)</u>	<u>(175,810)</u>	<u>(98,135)</u>
Total Fund Balances	<u>84,382</u>	<u>188,422</u>	<u>(1,206)</u>	<u>251,990</u>	<u>(5,501)</u>	<u>263,752</u>	<u>781,839</u>
TOTAL FUND BALANCES	<u>\$ 84,382</u>	<u>\$ 188,422</u>	<u>\$ -</u>	<u>\$ 251,990</u>	<u>\$ -</u>	<u>\$ 263,752</u>	<u>\$ 788,546</u>

The accompanying notes are an integral part of this statement.

CITY OF VELVA

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
December 31, 2012

Total Fund Balance for Governmental Funds \$ 781,839

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	\$ 2,043,480	
Less Accumulated Depreciation	<u>(1,072,167)</u>	
Net Capital Assets		971,313

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities, both current and long-term, are reported in the statement of net position. Balances at December 31, 2012 are:

Improvement Bonds Payable	(65,000)	
Loans Payable	(118,399)	
General Obligation Bonds	(513,027)	
Compensated Absences	<u>(12,055)</u>	
Total Long-Term Liabilities		<u>(708,481)</u>

Change in Net Position of Governmental Activities \$ 1,044,671

The accompanying notes are an integral part of this statement.

CITY OF VELVA
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the year ended December 31, 2012

	Major Funds							Total Governmental Funds
	General	Road & Bridge	Dike & Flood	Sales Tax - Water & Sewer	Velva Sewer Improvements - 2011	Other Governmental Funds		
REVENUES								
Taxes	\$ 160,886	\$ -	\$ -	\$ -	\$ -	\$ 35,355	\$ 196,241	
Licenses, Permits, and Fees	18,367	-	-	-	-	-	18,367	
Intergovernmental	93,941	163,313	192,374	-	-	28,233	477,861	
Charges for Services	1,330	150	-	-	-	-	1,480	
Sales Tax	-	-	-	98,811	-	93,430	192,241	
Interest	9,098	-	-	-	-	-	9,098	
Miscellaneous	4,697	500	382	-	-	11,479	17,058	
TOTAL REVENUES	288,319	163,963	192,756	98,811	-	168,497	912,346	
EXPENDITURES								
Current:								
General Government	183,986	-	-	-	-	-	183,986	
Public Safety	62,123	-	-	-	-	7,717	69,840	
Highways and Streets	-	283,440	-	-	-	11,049	294,489	
Health and Welfare	-	-	-	-	-	8,248	8,248	
Culture and Recreation	-	-	5,336	-	-	8,275	13,611	
Economic Development	-	-	-	-	-	38,629	38,629	
Other	-	-	50,128	-	38,473	83,661	172,262	
Debt Service:								
Principal	-	-	-	18,316	-	43,091	61,407	
Interest	-	-	-	1,660	-	17,115	18,775	
TOTAL EXPENDITURES	246,109	283,440	55,464	19,976	38,473	217,785	861,247	
Excess (Deficiency) of Revenues Over (Under) Expenditures	42,210	(119,477)	137,292	78,835	(38,473)	(49,288)	51,099	
OTHER FINANCING SOURCES (USES)								
Loan Proceeds	-	121,300	-	-	-	-	121,300	
Bond Proceeds	-	-	-	-	183,027	70,000	253,027	
Sale of Fixed Assets	-	15,105	-	-	-	-	15,105	
Transfers In (Out)	(2,000)	-	17,773	(30,827)	-	(18,479)	(33,533)	
TOTAL OTHER FINANCING SOURCES (USES)	(2,000)	136,405	17,773	(30,827)	183,027	51,521	355,899	
NET CHANGE IN FUND BALANCES	40,210	16,928	155,065	48,008	144,554	2,233	406,998	
Fund Balances - January 1, 2012	44,172	171,494	(156,271)	203,982	(150,055)	261,519	374,841	
FUND BALANCES - DECEMBER 31, 2012	\$ 84,382	\$ 188,422	\$ (1,206)	\$ 251,990	\$ (5,501)	\$ 263,752	\$ 781,839	

The accompanying notes are an integral part of this statement.

CITY OF VELVA

Reconciliation of Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the year ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 406,998

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

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

Current Year Capital Outlay	\$ 218,095	
Current Year Depreciation Expense	<u>(53,342)</u>	164,753

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This consists of the net increase in compensated absences. (4,316)

The issuance of 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. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. This is the amount of the net effect of these differences in the treatment of long-term debt and related items:

Loan Proceeds	\$ (121,300)	
Bond Proceeds	(253,027)	
Repayment of Debt	<u>61,407</u>	<u>(312,920)</u>

Change in net position of governmental activities \$ 254,515

The accompanying notes are an integral part of this statement.

CITY OF VELVA
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2012

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water & Sewer	Garbage	Water Imp. District 2005-1		
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 320,203	\$ 22,228	\$ 78,294	\$ 27,406	\$ 448,131
Noncurrent Assets:					
Capital Assets:					
Infrastructure	1,071,124	-	1,773,953	-	2,845,077
Buildings	23,400	-	-	-	23,400
Equipment	71,631	-	-	-	71,631
Accumulated Depreciation	(267,821)	-	(212,874)	-	(480,695)
Total Noncurrent Assets	898,334	-	1,561,079	-	2,459,413
TOTAL ASSETS	1,218,537	22,228	1,639,373	27,406	2,907,544
LIABILITIES					
Current Liabilities:					
Water State Revolving Bonds Payable	19,000	-	-	-	19,000
Special Assessment Bonds Payable	-	-	85,000	-	85,000
Total Current Liabilities	19,000	-	85,000	-	104,000
Noncurrent Liabilities:					
Water State Revolving Bonds Payable	272,919	-	-	-	272,919
Special Assessment Bonds Payable	-	-	670,000	-	670,000
Total Noncurrent Liabilities	272,919	-	670,000	-	942,919
TOTAL LIABILITIES	291,919	-	755,000	-	1,046,919
NET POSITION					
Net Investment in Capital Assets	606,415	-	806,079	-	1,412,494
Restricted for:					
Debt Service, Expendable	-	-	78,294	-	78,294
Unrestricted	320,203	22,228	-	27,406	369,837
TOTAL NET POSITION	\$ 926,618	\$ 22,228	\$ 884,373	\$ 27,406	\$ 1,860,625

The accompanying notes are an integral part of this statement.

CITY OF VELVA
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2012

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water & Sewer	Garbage	Water Imp. District 2005-1		
OPERATING REVENUES:					
Charges for Services	\$ 261,964	\$ 60,839	\$ -	\$ 5,308	\$ 328,111
Miscellaneous Charges	804	15	-	-	819
TOTAL OPERATING REVENUES	262,768	60,854	-	5,308	328,930
OPERATING EXPENSES:					
Salaries and Wages	119,343	5,501	-	-	124,844
Utilities	20,383	-	-	-	20,383
Supplies, Maintenance, and Repairs	83,283	65	-	7,915	91,263
Contracted Services	-	60,553	-	-	60,553
Other Expenses	4,593	126	4,988	-	9,707
Depreciation	22,342	-	35,479	-	57,821
TOTAL OPERATING EXPENSES	249,944	66,245	40,467	7,915	364,571
INCOME (LOSS) FROM OPERATIONS	12,824	(5,391)	(40,467)	(2,607)	(35,641)
NON-OPERATING REVENUES (EXPENSES):					
Special Assessments	-	-	176,747	-	176,747
Interest Expense	(7,773)	-	(26,000)	-	(33,773)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(7,773)	-	150,747	-	142,974
NET INCOME (LOSS) BEFORE TRANSFERS	5,051	(5,391)	110,280	(2,607)	107,333
Transfers In (Out)	33,583	-	-	(50)	33,533
CHANGE IN NET POSITION	38,634	(5,391)	110,280	(2,657)	140,866
Net Position - January 1, 2012	887,984	27,619	774,093	30,063	1,719,759
NET POSITION - DECEMBER 31, 2012	\$ 926,618	\$ 22,228	\$ 884,373	\$ 27,406	\$ 1,860,625

The accompanying notes are an integral part of this statement.

CITY OF VELVA
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2012

	Major Enterprise Funds			Other Enterprise Funds	Total
	Water & Sewer	Garbage	Water Imp. District 2005-1		
<u>Cash Flows from Operating Activities:</u>					
Receipts from Customers	\$ 262,768	\$ 60,854	\$ -	\$ 5,308	\$ 328,930
Payments to Suppliers	(103,666)	(60,618)	-	(7,915)	(172,199)
Payments to Employees	(119,343)	(5,501)	-	-	(124,844)
Other Receipts (Expenditures)	(4,593)	(126)	(4,988)	-	(9,707)
Net Cash Provided (Used) by Operating Activities	35,166	(5,391)	(4,988)	(2,607)	22,180
<u>Cash Flows from NonCapital Financing Activities:</u>					
Transfers In (Out)	33,583	-	-	(50)	33,533
Net Cash Provided (Used) by Noncapital Financing Activities	33,583	-	-	(50)	33,533
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Construction of Capital Assets	(5,205)	-	-	-	(5,205)
Special Assessments Collected	-	-	176,747	-	176,747
Purchases of Capital Assets	(11,950)	-	-	-	(11,950)
Principal Paid on Capital Debt	(19,000)	-	(285,000)	-	(304,000)
Interest Paid on Capital Debt	(7,773)	-	(26,000)	-	(33,773)
Net Cash Provided (Used) by Capital and Related Financing Activities	(43,928)	-	(134,253)	-	(178,181)
Net Increase (Decrease) in Cash and Cash Equivalents	24,821	(5,391)	(139,241)	(2,657)	(122,468)
Cash and Cash Equivalents, January 1	295,382	27,619	217,535	30,063	570,599
Cash and Cash Equivalents, December 31	\$ 320,203	\$ 22,228	\$ 78,294	\$ 27,406	\$ 448,131
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>					
Income (Loss) from Operations	\$ 12,824	\$ (5,391)	\$ (40,467)	\$ (2,607)	\$ (35,641)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	22,342	-	35,479	-	57,821
Net Cash Provided (Used) by Operating Activities	\$ 35,166	\$ (5,391)	\$ (4,988)	\$ (2,607)	\$ 22,180

The accompanying notes are an integral part of this statement.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the City's financial statements include all accounts of the City's operations. The criteria for including organizations as component units within the City's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Based on these criteria, there are no component units to be included within the City's reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds in a single column.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City reports the following major governmental funds:

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

Road & Bridge Fund. This fund accounts for expenditures related to repairs made to roads and bridges in the City of Velva.

Dike & Flood Fund. This fund accounts for expenditures related to repairs made to the dike surrounding the City of Velva and for flood related expenditures.

Sales Tax – Water & Sewer. This fund accounts for Sales Tax dedicated to Water & Sewer operations.

Velva Sewer Improvements 2011 Fund. This fund accounts for expenditures related to the City of Velva's sewer improvement project.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives essentially equal values. Non-operating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities. The City has the following major proprietary funds:

Water and Sewer Fund. This fund accounts for the activity of the water and sewer department. The department operates the water distribution system in the City of Velva.

Garbage Fund. This fund accounts for the activities of the City's garbage collection system.

Water Improvement District 2005-1 Fund. This fund accounts for resources collected and the expenditures related to the construction on the drinking water project for the City of Velva.

C. Measurement Focus/Basis of Accounting

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

Measurement Focus

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

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

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Basis of Accounting

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

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

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

The City follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities.

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

D. Deposits

In accordance with North Dakota statutes, the City maintains deposits at depository banks designated by the governing board which are members of the Federal Reserve System.

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

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The bank balance of these deposits at December 31, 2012 was \$1,275,295; the carrying balances at this date were \$1,229,970. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$364,926 was covered by Federal Depository Insurance, \$300,000 was collateralized with securities held by the pledging financial institutions' agent not in the City's name, and \$610,369 was unsecured. At December 31, 2012, the bank balances were inadequately covered by securities pledged by the bank and the board minutes indicated that pledges of securities were reviewed only once during the year, while state law requires them to be reviewed semi-annually.

Credit Risk: The City may invest idle funds as authorized in North Dakota statutes, as follows:

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

Concentration of credit risk: The City does not have a limit on the amount the City may invest in any one issuer.

E. Capital Assets

Capital assets include buildings, infrastructure and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the City as assets with an initial, individual cost of \$2,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	50 years
Vehicles and Equipment	7 to 15 years
Water & Sewer Components	50 years

F. Compensated Absences

Regular full-time employees earn annual leave based on years of service. Annual leave is cumulative at the rate of five days per year with a maximum accrual of 30 days. Upon termination, employees are paid for their accrued annual leave. Additionally, each full-time employee is entitled to sick leave earned at the rate of one working day per month with a maximum accumulation of 120 days. Upon termination, employees are paid 50% for any sick leave accumulated. A long-term liability for accrued compensated absences has been recorded in the government-wide statements.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

H. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. The City does not record encumbrances.

I. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the board through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

J. Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city commission – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the City’s “intent” to be used for special purposes, but are neither restricted nor committed. The city commission has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the City’s preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Interfund Transactions

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

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

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposit and savings accounts.

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 2.72 – 3.45 percent in 2012. At December 31, 2012, the City held certificates of deposit in this amount of \$228,667, which are all considered deposits.

NOTE 3 PROPERTY TAXES

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

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

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2012:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 150,055	\$ 36,284	\$ 186,339	\$ -
Capital Assets Being Depreciated:				
Infrastructure	501,466	245,898	-	747,364
Buildings	972,241	-	-	972,241
Equipment	221,623	122,252	20,000	323,875
Total	<u>1,695,330</u>	<u>368,150</u>	<u>20,000</u>	<u>2,043,480</u>
Less Accumulated Depreciation for:				
Infrastructure	21,231	25,818	-	47,049
Buildings	856,223	8,388	-	864,611
Equipment	161,371	19,136	20,000	160,507
Total	<u>1,038,825</u>	<u>53,342</u>	<u>20,000</u>	<u>1,072,167</u>
Total Capital Assets Being Depreciated, Net	<u>656,505</u>	<u>314,808</u>	<u>-</u>	<u>971,313</u>
Governmental Activities Capital Assets, Net	<u>\$ 806,560</u>	<u>\$ 351,092</u>	<u>\$ 186,339</u>	<u>\$ 971,313</u>
	Balance January 1	Increases	Decreases	Balance December 31
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 662,636	\$ 5,205	\$ 667,841	\$ -
Capital Assets Being Depreciated:				
Infrastructure	2,177,236	667,841	-	2,845,077
Buildings	23,400	-	-	23,400
Equipment	59,681	11,950	-	71,631
Total	<u>2,260,317</u>	<u>679,791</u>	<u>-</u>	<u>2,940,108</u>
Less Accumulated Depreciation for:				
Infrastructure	371,363	49,839	-	421,202
Buildings	23,400	-	-	23,400
Equipment	28,111	7,982	-	36,093
Total	<u>422,874</u>	<u>57,821</u>	<u>-</u>	<u>480,695</u>
Total Capital Assets Being Depreciated, Net	<u>1,837,443</u>	<u>621,970</u>	<u>-</u>	<u>2,459,413</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,500,079</u>	<u>\$ 627,175</u>	<u>\$ 667,841</u>	<u>\$ 2,459,413</u>

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 4 CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the City as follows for the year ended December 31, 2012:

<u>Governmental Activities:</u>	
General Government	\$ 2,275
Public Safety	3,874
Highways and Streets	43,580
Culture and Recreation	3,613
Total	\$ 53,342
<u>Business-Type Activities:</u>	
Water Imp. District 2005-1	\$ 35,479
Water and Sewer	22,342
	\$ 57,821

NOTE 5 LONG-TERM DEBT

During the year ended December 31, 2012, the following changes occurred in long-term liabilities of the City:

PRIMARY GOVERNMENT

Governmental Activities	Balance			Balance	Due Within
	January 1	Increases	Decreases	December 31	One Year
Improvement Bonds	\$ 80,000	\$ -	\$ 15,000	\$ 65,000	\$ 20,000
Loans Payable	23,506	121,300	26,407	118,399	23,727
General Obligation Bonds	280,000	253,027	20,000	513,027	26,241
Compensated Absences *	7,739	4,316	-	12,055	-
Total Governmental Activities	\$ 391,245	\$ 378,643	\$ 61,407	\$ 708,481	\$ 69,968

* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 5 LONG-TERM DEBT – CONTINUED

Improvement Bonds:

\$250,000 Sunset Addition Improvement Bonds of 2002, due in annual installments of \$15,000 to \$25,000 through May 2017; interest at 4.25% to 5.25%. \$ 65,000

Loans Payable:

\$100,000 Sunset Addition Loan Payable from SBPC, due in monthly installments of \$738 through September 2017; interest at 4%. 15,415

\$121,300 Loader Loan Payable from Peoples State Bank, due in annual installments of \$19,976 through July 2018; interest at 4.5%. 102,984

General Obligation Bonds

\$300,000 General Obligation Bonds, Series 2009, due in annual installments of \$10,000 to \$20,000 through May 2029; interest at 2.875% to 4.25%. 270,000

\$70,000 Refunding Improvement Bonds, Series 2012, due in annual installments of \$5,833 to \$5,834 through May 2024; interest at 1.5% to 2.5%. 70,000

\$183,027 Sewer Revenue Bonds, Series 2011, due in annual installments of \$10,000 through September 2029; interest at 2.5%. 173,027

Total Long-term Debt \$ 696,426

The annual requirements to amortize outstanding governmental debt are as follows:

Year Ending December 31	Improvement Bonds		Loans Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 20,000	\$ 2,887	\$ 23,727	\$ 5,099	\$ 26,241	\$ 14,452
2014	20,000	1,838	23,062	4,071	25,833	16,169
2015	25,000	656	16,754	3,222	30,833	15,472
2016	-	-	17,508	2,469	30,833	14,703
2017	-	-	18,295	1,681	30,833	13,920
2018-2022	-	-	19,053	857	154,167	54,994
2023-2027	-	-	-	-	151,668	28,992
2028-2029	-	-	-	-	62,619	3,950
Total	\$ 65,000	\$ 5,381	\$ 118,399	\$ 17,399	\$ 513,027	\$ 162,652

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 5 LONG-TERM DEBT – CONTINUED

Business-Type Activities	Balance			Balance	Due Within
	January 1	Increases	Decreases	December 31	One Year
Water State Revolving Fund	\$ 310,919	\$ -	\$ 19,000	\$ 291,919	\$ 19,000
Special Assessment Bonds	1,040,000	-	285,000	755,000	85,000
Total Business-type Activities	\$ 1,350,919	\$ -	\$ 304,000	\$ 1,046,919	\$ 104,000

Water State Revolving Fund

\$454,074 Water State Revolving Fund through ND Public Finance Authority; of the face amount, \$329,795 of bonds were issued in 2009; due in annual installments of \$18,000 to \$26,000 through September 2028; interest rate of 2.5%. \$291,919

Special Assessment Bonds

\$1,986,240 Water Treatment Plant Special Assessment Bonds of 2006. The bonds are by the ND Public Finance Authority under the Drinking Water State Revolving Fund Program; due in annual installment of \$70,000 to \$185,000 through September 2024; interest rate of 2.5%. \$755,000

The annual requirements to amortize outstanding proprietary fund debt are as follows:

Year Ending	SRF - Water Bond		Special Assessment Bonds		
	December 31	Principal	Interest	Principal	Interest
2013		19,000	7,773	85,000	18,875
2014		19,000	7,298	85,000	16,750
2015		21,000	6,773	85,000	14,625
2016		21,000	6,248	85,000	12,500
2017		22,000	5,698	85,000	10,375
2018-2022		116,000	19,915	330,000	20,250
2023-2025		73,919	4,646	-	-
Total		\$ 291,919	\$ 58,351	\$ 755,000	\$ 93,375

NOTE 6 DEFICIT FUND BALANCES

The following funds had a deficit balance as of December 31, 2012:

Governmental Funds

Sewer & Water Improvement Reserve	\$ 131,220
Dike & Flood	1,206
Tree Fund	408
Velva Safe Routes to School 2011	7,766
Velva Sewer Improvements 2011	5,501
Lagoon Dike Repair 2012	385
Levee Evaluation & Certification	36,031

The City has plans to relieve these deficit balances through sales tax revenues.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 7 **PENSION PLAN**

The City of Velva contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute 6.26% of the employee's salary, which consists of 5.26% for employee retirement and 1% for retiree health benefits fund. The City of Velva's contributions to the NDPERS for the years ending December 31, 2012, 2011, and 2010 were \$7,398, \$6,534, and \$4,969, respectively, which were the required contributions for those years.

NOTE 8 **RISK MANAGEMENT**

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

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Velva pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage.

The City of Velva also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Velva pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado is reinsured by a third party insurance carrier for losses incurred within per occurrence limitations. That State Bonding Fund currently provides the City of Velva with blanket fidelity bond coverage for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Velva has workers compensation with the North Dakota Workforce Safety and Insurance. The City provides health insurance through Blue Cross/Blue Shield of North Dakota.

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

NOTE 9 **LEGAL COMPLIANCE**

The governing board did not amend the budget during the year ended December 31, 2012.

Excess of Actual Expenditures Over Budget in Major Funds

Governmental Funds

General	\$ 2,159
Road & Bridge	167,940
Dike & Flood	49,964
Sales Tax - Water & Sewer	19,976
**Velva Sewer Improvements 2011 Fund	38,473

** A budget was not prepared for the fund for the year ending December 31, 2012.

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 10 TRANSFERS

The following is a description of the transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2012:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<i>To provide for construction in progress on Water and Sewer Main Street Project of 2009</i>		
Water & Sewer	\$ 5,205	
Water & Sewer - Main Street Project		\$ 5,205
<i>For Water and Sewer Main Street Project of 2009</i>		
Water & Sewer - Main Street Project	2,499	
Sales Tax - Water & Sewer Fund		2,499
<i>To provide for removal of old trees within the City</i>		
Tree Fund	2,000	
General Fund		2,000
<i>To move dike certification expenses to proper fund</i>		
Dike and Flood Fund	17,773	
Levee Evaluation and Certification		17,773
<i>To close out Shared Use Path 2009 fund</i>		
Shared Use Path 2009	17,265	
Sales Tax - Infrastructure		17,265
<i>To close out Meter Deposits fund</i>		
Water & Sewer	50	
Meter Deposits		50
<i>For State Revolving Fund Bond</i>		
Water Revenue Bond	45,699	
GO Bond Series 2009		17,371
Sales Tax - Water & Sewer Fund		28,328
<i>For State Revolving Fund Bond</i>		
Water & Sewer	28,328	
Water Revenue Bond		28,328
<i>For 2009 G.O. Bond Payments</i>		
G.O. Bond, Series 2009	67,457	
Main Street Enhancement Project 2009		51,372
Sewer & Water Improvement Reserve		16,085
	<u>\$ 186,276</u>	<u>\$ 186,276</u>

CITY OF VELVA
Notes to the Financial Statements
December 31, 2012

NOTE 11 **INTERFUND RECEIVABLES AND PAYABLES**

At December 31, 2012, interfund receivables and payables totaled \$6,707 because of the pooled accounts. All is expected to be collected in the next year. Below is a summary of the interfund receivables and payables.

<u>Governmental Funds</u>	Due From Other Funds	Due To Other Funds
General Fund	\$ 6,707	
Dike & Flood Fund		\$ 1,206
Velva Sewer Improvements - 2011 Fund		5,501
	\$ 6,707	\$ 6,707

NOTE 12 **FUND BALANCES**

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	General Fund	Road & Bridge	Dike & Flood	Sales Tax - Water & Sewer	Velva Sewer Improvements - 2011	Other Governmental Funds	Total
Restricted for Debt Service							
Debt Service - Sunset Addition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,182	\$ 41,182
GO Bond Series 2009	-	-	-	-	-	45,632	45,632
Sewer District - 2012 Overvold Addition	-	-	-	-	-	7,237	7,237
EDC Sales Tax - Sunset Loan Share	-	-	-	-	-	27,808	27,808
Assigned							
Road & Bridge	-	188,422	-	-	-	-	188,422
Sales Tax - Water & Sewer	-	-	-	251,990	-	-	251,990
Sales Tax - Infrastructure	-	-	-	-	-	132,585	132,585
City Share of Special Assessments	-	-	-	-	-	13,875	13,875
Cemetery	-	-	-	-	-	19,030	19,030
Economic Development	-	-	-	-	-	212	212
Park District	-	-	-	-	-	47,762	47,762
Library	-	-	-	-	-	302	302
Fire	-	-	-	-	-	7,310	7,310
Fire Equipment Reserve	-	-	-	-	-	16,717	16,717
Sales Tax - Economic Development	-	-	-	-	-	34,887	34,887
Sales Tax - Park District	-	-	-	-	-	27,515	27,515
Highway 52 Sewer Line - 2011	-	-	-	-	-	17,508	17,508
Unassigned	84,382	-	(1,206)	-	(5,501)	(175,810)	(98,135)
	\$ 84,382	\$ 188,422	\$ (1,206)	\$ 251,990	\$ (5,501)	\$ 263,752	\$ 781,839

***REQUIRED
SUPPLEMENTARY INFORMATION***

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 General Fund
 For the year ended December 31, 2012

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 158,944	\$ 158,944	\$ 160,886	\$ 1,942
Licenses, Permits, and Fees	8,320	8,320	18,367	10,047
Intergovernmental	67,500	67,500	93,941	26,441
Charges for Services	1,000	1,000	1,330	330
Interest	8,000	8,000	9,098	1,098
Miscellaneous	<u>200</u>	<u>200</u>	<u>4,697</u>	<u>4,497</u>
TOTAL REVENUES	<u>243,964</u>	<u>243,964</u>	<u>288,319</u>	<u>44,355</u>
EXPENDITURES				
Current:				
General Government	181,700	181,700	183,986	(2,286)
Public Safety	<u>62,250</u>	<u>62,250</u>	<u>62,123</u>	<u>127</u>
TOTAL EXPENDITURES	<u>243,950</u>	<u>243,950</u>	<u>246,109</u>	<u>(2,159)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	14	14	42,210	42,196
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(2,000)</u>	<u>(2,000)</u>
NET CHANGE IN FUND BALANCES	14	14	40,210	40,196
Fund Balances - January 1, 2012	<u>44,172</u>	<u>44,172</u>	<u>44,172</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2012	<u>\$ 44,186</u>	<u>\$ 44,186</u>	<u>\$ 84,382</u>	<u>\$ 40,196</u>

The accompanying notes are an integral part of this statement.

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 Road & Bridge Fund
 For the year ended December 31, 2012

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 160,000	\$ 160,000	\$ 163,313	\$ 3,313
Charges for Services	-	-	150	150
Miscellaneous	-	-	500	500
TOTAL REVENUES	<u>160,000</u>	<u>160,000</u>	<u>163,963</u>	<u>3,963</u>
EXPENDITURES				
Current:				
Highways and Streets	<u>115,500</u>	<u>115,500</u>	<u>283,440</u>	<u>(167,940)</u>
TOTAL EXPENDITURES	<u>115,500</u>	<u>115,500</u>	<u>283,440</u>	<u>(167,940)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	44,500	44,500	(119,477)	(163,977)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	121,300	121,300
Sale of Fixed Assets	-	-	15,105	15,105
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>136,405</u>	<u>136,405</u>
NET CHANGE IN FUND BALANCES	44,500	44,500	16,928	(27,572)
Fund Balances - January 1, 2012	<u>171,494</u>	<u>171,494</u>	<u>171,494</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2012	<u>\$ 215,994</u>	<u>\$ 215,994</u>	<u>\$ 188,422</u>	<u>\$ (27,572)</u>

The accompanying notes are an integral part of this statement.

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 Dike & Flood Fund
 For the year ended December 31, 2012

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 192,374	\$ 192,374
Miscellaneous	-	-	382	382
TOTAL REVENUES	-	-	192,756	192,756
EXPENDITURES				
Current:				
Culture and Recreation	-	-	5,336	(5,336)
Other	5,500	5,500	50,128	(44,628)
TOTAL EXPENDITURES	5,500	5,500	55,464	(49,964)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,500)	(5,500)	137,292	142,792
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	-	-	17,773	17,773
NET CHANGE IN FUND BALANCES	(5,500)	(5,500)	155,065	160,565
Fund Balances - January 1, 2012	(156,271)	(156,271)	(156,271)	-
FUND BALANCES - DECEMBER 31, 2012	<u>\$ (161,771)</u>	<u>\$ (161,771)</u>	<u>\$ (1,206)</u>	<u>\$ 160,565</u>

The accompanying notes are an integral part of this statement.

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 Sales Tax Fund - Water & Sewer
 For the year ended December 31, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	
REVENUES				
Sales Tax	\$ 31,000	\$ 31,000	\$ 98,811	\$ 67,811
TOTAL REVENUES	31,000	31,000	98,811	67,811
EXPENDITURES				
Current:				
Debt Service:				
Principal	-	-	18,316	(18,316)
Interest	-	-	1,660	(1,660)
TOTAL EXPENDITURES	-	-	19,976	(19,976)
Excess (Deficiency) of Revenues Over (Under) Expenditures	31,000	31,000	78,835	47,835
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	-	-	(30,827)	(30,827)
NET CHANGE IN FUND BALANCES	31,000	31,000	48,008	17,008
Fund Balances - January 1, 2012	203,982	203,982	203,982	-
FUND BALANCES - DECEMBER 31, 2012	<u>\$ 234,982</u>	<u>\$ 234,982</u>	<u>\$ 251,990</u>	<u>\$ 17,008</u>

The accompanying notes are an integral part of this statement.

City of Velva
Notes to Required Supplementary Information
December 31, 2012

NOTE 1 BUDGETS

The City adopts a budget on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The budget is presented for the general fund and special revenue funds. The city commission is required to present the adopted and final amended budgeted receipts and disbursements for the fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- On or before October 1, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing and may make revisions that do not increase the total budget and prepares the final budget.
- On or before October 10th, the board adopts the final budget.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

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

Governing Board
City of Velva
Velva, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Velva, North Dakota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies 2012-1 through 2012-3 described in the accompanying schedule of findings to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Velva's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2012-4.

City of Velva, North Dakota's Response to Findings

The City of Velva, North Dakota's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City of Velva'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.



Mahlum Goodhart, PC
Mandan, North Dakota
December 31, 2014

CITY OF VELVA
Schedule of Findings
For the Year Ended December 31, 2012

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Governmental activities, business-type activities, each major fund, and the aggregate remaining fund information	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Control deficiency identified not considered to be a material weakness?	No
Noncompliance material to financial statements noted?	Yes

Section II – Financial Statement Findings

Material Weaknesses

Finding 2012-1: Segregation of Duties

Condition – The City has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the Board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the City's operations.

Management's Response – The City is aware of the limitations and has determined additional staff is not feasible. The City will monitor the condition.

CITY OF VELVA
Schedule of Findings
For the Year Ended December 31, 2012

Finding 2012-2: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the City’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with *Governmental Accounting Standards Board* statements is required.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation.

Effect – The current financial statements completed by the City do not include the government-wide financial statements, the long-term debt, or the capital assets and related depreciation. Due to the financial statement presentation requirements of the *Governmental Accounting Standards Board*, material audit entries were required to adjust to fund statements to the government-wide presentation.

Recommendation – This is not unusual for entities of your size. We recommend the City review the financial statements and related notes prepared by the auditors.

Management’s Response – The City is aware of this issue and has decided to accept the degree of risk associated with the City not preparing its own financial statements.

Finding 2012-3: Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements in conformity with *Governmental Accounting Standards Board*.

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – The year end journal entries for capital assets and debt are not made by the entity.

Effect – The amount of journal entries made has a material effect on the financial statements.

Recommendation – Capital assets and debt amounts should be recorded on the City’s accounting system.

Management’s Response – The City is aware that several journal entries were required during the audit. General ledger accounts will be reviewed monthly for accuracy of classification of transactions.

CITY OF VELVA
Schedule of Findings
For the Year Ended December 31, 2012

Noncompliance

Finding 2012-4: Approval of Pledges of Securities

Condition – The City is not approving its pledges of securities on a semiannual basis as required in state law.

Criteria – Pledges should be reviewed semiannually to ensure there is adequate coverage for the City’s bank balances to protect against loss of funds.

Cause – The City was not aware of state law regarding pledges of securities.

Effect – The City could have funds that are not protected by pledges and FDIC insurance.

Recommendation – We recommend the City review and approve pledges of securities on a semiannual basis as required by state law.

Management’s Response – We will make sure that the pledges of securities are approved semi-annually as required by state law.

Section III – Prior Audit Findings

Findings 2012-1 through 2012-4 are repeat findings.

Finding 2011-4: Unrecorded Disbursements

Condition – Unrecorded disbursements were discovered during the course of the audit for payments automatically deducted from the City’s checking account.

Criteria – The City’s internal control procedures should be designed to ensure that all transactions are properly recorded in the accounting records.

Cause – During the flood, the bank reconciliations were not timely completed and not correctly balanced.

Effect – Unrecorded disbursements could have a material effect on the financial statements and could understate the total expenditures.

Recommendation – Bank reconciliations should be timely completed and all differences should be investigated and corrected.

Current Status – Bank reconciliations are being timely completed and no unrecorded disbursements were discovered during the course of the audit.