



Financial Statements
December 31, 2017

City of Valley City, North Dakota

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City of Valley City, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2017

<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
Ross Powell	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, 2017, 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, 2017 and the respective changes in financial position and, where applicable, cash flows thereof and the General Fund Budgetary Schedule of the City for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The combining and individual fund schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and schedule of expenditures of federal awards 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 August 7, 2018 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 solely 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 effectiveness of the City's 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 style. To the right of the signature is a vertical yellow line.

Fargo, North Dakota
August 7, 2018

City of Valley City, North Dakota
Statement of Net Position
December 31, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 4,472,343	\$ 3,890,586	\$ 8,362,929
Restricted cash	274,570	407,503	682,073
Receivables			
Accounts	1,517,019	704,921	2,221,940
Unbilled revenues	13,530	466,068	479,598
Interest	-	789	789
Property taxes	34,258	-	34,258
Special assessments	6,935,349	-	6,935,349
Due from other governmental units	489,654	25,291	514,945
Interfund balances	390,112	(390,112)	-
Prepaid items	-	44,415	44,415
Inventory	-	484,536	484,536
Unearned debits	-	4,299	4,299
Capital assets			
Land	173,800	424,693	598,493
Construction in progress	18,861,766	-	18,861,766
Infrastructure	37,058,032	-	37,058,032
Buildings and improvements	2,095,536	25,210,221	27,305,757
Machinery and equipment	1,283,877	8,044,173	9,328,050
Vehicles	3,067,686	-	3,067,686
Mains and lines	-	43,322,571	43,322,571
Less accumulated depreciation	<u>(10,118,029)</u>	<u>(34,843,605)</u>	<u>(44,961,634)</u>
Total assets	<u>66,549,503</u>	<u>47,796,349</u>	<u>114,345,852</u>
Liabilities			
Accounts payable	1,107,483	684,117	1,791,600
Accrued interest payable	87,340	8,292	95,632
Other liabilities	77,834	158,247	236,081
Long-term liabilities			
Due within one year	1,325,636	399,341	1,724,977
Due in more than one year	<u>14,365,848</u>	<u>1,615,000</u>	<u>15,980,848</u>
Total liabilities	<u>16,964,141</u>	<u>2,864,997</u>	<u>19,829,138</u>
Net position			
Net investment in capital assets	36,854,779	40,343,053	77,197,832
Restricted	14,138,328	308,018	14,446,346
Unrestricted	<u>(1,407,745)</u>	<u>4,280,281</u>	<u>2,872,536</u>
Total net position	<u>\$ 49,585,362</u>	<u>\$ 44,931,352</u>	<u>\$ 94,516,714</u>

City of Valley City, North Dakota
Statement of Activities
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 2,120,325	\$ 2,378,027	\$ -	\$ 5,353,347	\$ 5,611,049	\$ -	\$ 5,611,049
Public safety	2,652,641	261,642	234,688	866,983	(1,289,328)	-	(1,289,328)
Public works	2,317,636	1,574,381	-	-	(743,255)	-	(743,255)
Culture and recreation	283,350	-	232,072	-	(51,278)	-	(51,278)
Economic development	3,734,611	-	-	-	(3,734,611)	-	(3,734,611)
Interest on long-term debt	308,566	-	-	-	(308,566)	-	(308,566)
Total governmental activities	<u>11,417,129</u>	<u>4,214,050</u>	<u>466,760</u>	<u>6,220,330</u>	<u>(515,989)</u>	<u>-</u>	<u>(515,989)</u>
Business-type activities							
Electric	6,425,636	7,627,563	-	-	-	1,201,927	1,201,927
Water	2,424,412	1,464,568	-	-	-	(959,844)	(959,844)
Sewer facility	711,795	756,466	-	-	-	44,671	44,671
Garbage	1,057,423	1,047,257	-	-	-	(10,166)	(10,166)
Total business-type activities	<u>10,619,266</u>	<u>10,895,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,588</u>	<u>276,588</u>
Total government	<u>\$ 22,036,395</u>	<u>\$ 15,109,904</u>	<u>\$ 466,760</u>	<u>\$ 6,220,330</u>	<u>(515,989)</u>	<u>276,588</u>	<u>(239,401)</u>
General revenues							
Sales and use tax					2,030,346	-	2,030,346
Property taxes					1,418,433	-	1,418,433
State aid					773,634	-	773,634
Unrestricted investment earnings					21,804	18,383	40,187
Miscellaneous					320,429	50,971	371,400
Transfers					(460,157)	460,157	-
Total general revenue and transfers					<u>4,104,489</u>	<u>529,511</u>	<u>4,634,000</u>
Change in net position					3,588,500	806,099	4,394,599
Net position - beginning					45,996,862	44,125,253	90,122,115
Net position - ending					<u>\$ 49,585,362</u>	<u>\$ 44,931,352</u>	<u>\$ 94,516,714</u>

City of Valley City, North Dakota
Governmental Funds
Balance Sheet
December 31, 2017

	General	Paving Projects	Infrastructure Renewal & Replacement	Watermain Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 187,173	\$ -	\$ -	\$ -	\$ 2,502,701	\$ 1,782,469	\$ 4,472,343
Restricted cash	-	-	-	-	274,570	-	274,570
Due from other funds	946,125	-	2,466,724	-	-	-	3,412,849
Receivables							
Accounts	1,493,022	-	19,391	-	-	4,606	1,517,019
Taxes receivable - delinquent	-	-	-	-	-	4,601	4,601
Unbilled revenues	-	-	13,530	-	-	-	13,530
Property taxes	29,657	-	-	-	-	-	29,657
Special assessments							
Current	104,231	-	-	-	503,295	1,125	608,651
Delinquent	7,308	-	-	-	24,833	-	32,141
Deferred	433,638	-	-	-	5,857,919	3,000	6,294,557
Interfund	-	-	-	-	390,112	-	390,112
Due from other governmental units	120,039	-	151,917	-	-	217,698	489,654
Total assets	<u>\$ 3,321,193</u>	<u>\$ -</u>	<u>\$ 2,651,562</u>	<u>\$ -</u>	<u>\$ 9,553,430</u>	<u>\$ 2,013,499</u>	<u>\$ 17,539,684</u>
Liabilities and Fund Balance							
Liabilities							
Accounts payable	\$ 856,524	\$ 170,234	\$ -	\$ 9,288	\$ -	\$ 71,437	\$ 1,107,483
Due to other funds	-	2,953,372	-	208,524	-	250,953	3,412,849
Other liabilities	77,834	-	-	-	-	-	77,834
Total liabilities	<u>934,358</u>	<u>3,123,606</u>	<u>-</u>	<u>217,812</u>	<u>-</u>	<u>322,390</u>	<u>4,598,166</u>
Deferred Inflows of Resources							
Unavailable revenue-property taxes	29,657	-	-	-	-	4,601	34,258
Unavailable revenue-special assessments	545,177	-	-	-	6,776,157	4,125	7,325,459
Total deferred inflows of resources	<u>574,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,776,157</u>	<u>8,726</u>	<u>7,359,717</u>
Fund Balance (Deficit)							
Restricted for:							
Debt service	-	-	-	-	2,777,273	-	2,777,273
Emergency services	-	-	-	-	-	125,956	125,956
Community development	-	-	-	-	-	1,806,640	1,806,640
Capital projects	-	-	-	-	-	740	740
Infrastructure	-	-	2,651,562	-	-	-	2,651,562
Assigned	33,165	-	-	-	-	-	33,165
Unassigned	1,778,836	(3,123,606)	-	(217,812)	-	(250,953)	(1,813,535)
Total fund balance (deficit)	<u>1,812,001</u>	<u>(3,123,606)</u>	<u>2,651,562</u>	<u>(217,812)</u>	<u>2,777,273</u>	<u>1,682,383</u>	<u>5,581,801</u>
Total liabilities, deferred inflows of resources, and fund balance (deficit)	<u>\$ 3,321,193</u>	<u>\$ -</u>	<u>\$ 2,651,562</u>	<u>\$ -</u>	<u>\$ 9,553,430</u>	<u>\$ 2,013,499</u>	<u>\$ 17,539,684</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, 2017

Total Fund Balances – Governmental Funds	\$ 5,581,801
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.	52,422,668
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.	7,359,717
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	(10,735,868)
Sales tax revenue bonds	(4,427,426)
Capital lease payable	(404,595)
Compensated absences	(123,595)
Accrued interest	(87,340)
	<hr/>
Total Net Position – Governmental Activities	<u><u>\$ 49,585,362</u></u>

City of Valley City, North Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2017

	General	Paving Projects	Infrastructure Renewal & Replacement	Watermain Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues							
General property taxes	\$ 1,071,794	\$ -	\$ -	\$ -	\$ 291,460	\$ 164,135	\$ 1,527,389
Special assessments	110,679	74,866	-	45,115	867,275	42,923	1,140,858
Franchise fees	61,341	-	445,551	-	-	-	506,892
Licenses and permits	51,086	-	-	-	-	-	51,086
Intergovernmental revenue	6,564,619	866,983	-	-	31,044	39,648	7,502,294
Fines and forfeitures	91,912	-	-	-	-	-	91,912
Sales tax	-	-	735,272	-	-	1,272,994	2,008,266
Miscellaneous revenue	329,267	5,179	-	-	38,301	229,218	601,965
Total revenues	<u>8,280,698</u>	<u>947,028</u>	<u>1,180,823</u>	<u>45,115</u>	<u>1,228,080</u>	<u>1,748,918</u>	<u>13,430,662</u>
Expenditures							
Current							
General government	949,127	-	-	-	-	-	949,127
Public safety	2,179,414	-	-	-	-	-	2,179,414
General government - other	235,986	-	-	-	-	361,791	597,777
Culture and recreation	38,647	-	-	-	-	137,598	176,245
Community development	316,256	-	-	-	-	399,555	715,811
Permanent flood protection	110,934	-	-	-	-	-	110,934
Miscellaneous	3,219	-	484	-	-	148,182	151,885
Capital outlay	6,903,600	3,758,808	-	219,053	-	243,388	11,124,849
Debt service							
Principal	23,038	-	-	-	1,112,892	-	1,135,930
Interest and fees	14,803	-	-	-	320,510	-	335,313
Total expenditures	<u>10,775,024</u>	<u>3,758,808</u>	<u>484</u>	<u>219,053</u>	<u>1,433,402</u>	<u>1,290,514</u>	<u>17,477,285</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,494,326)	(2,811,780)	1,180,339	(173,938)	(205,322)	458,404	(4,046,623)
Other Financing Sources (Uses)							
Bond proceeds	1,392,500	1,066,564	-	611,683	219,110	252,643	3,542,500
Discount on bonds	-	-	-	-	(23,402)	-	(23,402)
Transfers in	1,592,297	503,091	-	544,115	111,472	880,129	3,631,104
Transfers out	(435,254)	-	(1,764,623)	-	-	(371,227)	(2,571,104)
Total other financing sources and uses	<u>2,549,543</u>	<u>1,569,655</u>	<u>(1,764,623)</u>	<u>1,155,798</u>	<u>307,180</u>	<u>761,545</u>	<u>4,579,098</u>
Net Change in Fund Balance	55,217	(1,242,125)	(584,284)	981,860	101,858	1,219,949	532,475
Fund Balance (Deficit), Beginning	1,756,784	(1,881,481)	3,235,846	(1,199,672)	2,675,415	462,434	5,049,326
Fund Balance (Deficit), Ending	<u>\$ 1,812,001</u>	<u>\$ (3,123,606)</u>	<u>\$ 2,651,562</u>	<u>\$ (217,812)</u>	<u>\$ 2,777,273</u>	<u>\$ 1,682,383</u>	<u>\$ 5,581,801</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 532,475
<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	7,794,605
Contribution of capital assets to proprietary fund	(1,520,157)
Depreciation expense	(1,391,088)
The net effect of the disposal of capital assets is to decrease net position	(17,145)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	617,754
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	(23,441)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	2,067
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:</p>	
Bonds issued	(3,542,500)
Capital lease retirement	23,038
Bond principal retirement	1,112,892
Change in Net Position of Governmental Activities	\$ 3,588,500

City of Valley City, North Dakota
 General Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance – Budget to Actual
 Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
General property taxes	\$ 1,118,600	\$ 1,071,794	\$ (46,806)
Special assessments	215,000	110,679	(104,321)
Licenses and permits	42,910	51,086	8,176
Intergovernmental revenue	7,834,697	6,564,619	(1,270,078)
Fines and forfeitures	90,500	91,912	1,412
Franchise fees	150,000	61,341	(88,659)
Miscellaneous	165,150	329,267	164,117
Total revenues	<u>9,616,857</u>	<u>8,280,698</u>	<u>(1,336,159)</u>
Expenditures			
Current			
General government	846,574	949,127	(102,553)
Public safety	2,358,674	2,179,414	179,260
General government - other	135,850	235,986	(100,136)
Culture and recreation	38,700	38,647	53
Community development	-	316,256	(316,256)
Economic development	1,000	-	1,000
Permanent flood protection	8,543,000	110,934	8,432,066
Miscellaneous	-	3,219	(3,219)
Capital outlay	566,140	6,903,600	(6,337,460)
Debt Service			
Principal	23,038	23,038	-
Interest and Fees	-	14,803	(14,803)
Total expenditures	<u>12,512,976</u>	<u>10,775,024</u>	<u>1,737,952</u>
Deficiency of Revenues Under Expenditures	(2,896,119)	(2,494,326)	401,793
Other Financing Sources (Uses)			
Bond proceeds	-	1,392,500	1,392,500
Transfers in	1,405,000	1,592,297	187,297
Transfers out	(704,500)	(435,254)	269,246
Total other financing sources and uses	<u>700,500</u>	<u>2,549,543</u>	<u>1,849,043</u>
Net Change in Fund Balance	<u>\$ (2,195,619)</u>	55,217	<u>\$ 2,250,836</u>
Fund Balance, Beginning		<u>1,756,784</u>	
Fund Balance, Ending		<u>\$ 1,812,001</u>	

City of Valley City, North Dakota
Proprietary Funds
Statement of Net Position
December 31, 2017

	Electric	Water	Sewer	Garbage	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 3,322,797	\$ -	\$ 79,618	\$ 488,171	\$ 3,890,586
Due from other funds	-	-	793,087	-	793,087
Accounts receivable - net					
Accounts	529,192	71,147	43,556	61,026	704,921
Accrued interest	-	716	73	-	789
Unbilled revenues	343,408	55,481	34,502	32,677	466,068
Inventories	313,526	171,010	-	-	484,536
Prepaid expenses	44,415	-	-	-	44,415
Due from other governmental units	22,407	2,780	13	91	25,291
Total current assets	<u>4,575,745</u>	<u>301,134</u>	<u>950,849</u>	<u>581,965</u>	<u>6,409,693</u>
Capital assets					
Land	114,385	147,572	113,242	49,494	424,693
Buildings and improvements	630,913	24,001,354	188,313	389,641	25,210,221
Machinery and equipment	4,863,347	1,217,768	494,168	1,468,890	8,044,173
Mains and lines	12,371,890	15,437,426	15,513,255	-	43,322,571
Less accumulated depreciation	(13,414,030)	(13,554,641)	(6,537,299)	(1,337,635)	(34,843,605)
Net capital assets	<u>4,566,505</u>	<u>27,249,479</u>	<u>9,771,679</u>	<u>570,390</u>	<u>42,158,053</u>
Unearned debits	-	4,299	-	-	4,299
Restricted cash	99,485	286,768	21,250	-	407,503
Total assets	<u>9,241,735</u>	<u>27,841,680</u>	<u>10,743,778</u>	<u>1,152,355</u>	<u>48,979,548</u>
Liabilities					
Current liabilities					
Accounts payable	627,455	20,450	4,013	32,199	684,117
Accrued interest payable	-	7,637	655	-	8,292
Customer deposits	99,485	-	-	-	99,485
Due to other funds	-	793,087	-	-	793,087
Other liabilities	54,813	3,226	163	560	58,762
Interfund special assessments payable	4,418	42,061	3,271	750	50,500
Current maturities of long-term debt	199,341	185,000	15,000	-	399,341
Total current liabilities	<u>985,512</u>	<u>1,051,461</u>	<u>23,102</u>	<u>33,509</u>	<u>2,093,584</u>
Long-term debt (net of current portion)					
Bonds payable	-	1,430,000	185,000	-	1,615,000
Interfund special assessments payable	30,266	301,202	3,644	4,500	339,612
Total long-term debt	<u>30,266</u>	<u>1,731,202</u>	<u>188,644</u>	<u>4,500</u>	<u>1,954,612</u>
Total liabilities	<u>1,015,778</u>	<u>2,782,663</u>	<u>211,746</u>	<u>38,009</u>	<u>4,048,196</u>
Net Position					
Net investment in capital assets	4,566,505	25,634,479	9,571,679	570,390	40,343,053
Restricted	-	286,768	21,250	-	308,018
Unrestricted	3,659,452	(862,230)	939,103	543,956	4,280,281
Total net position	<u>\$ 8,225,957</u>	<u>\$ 25,059,017</u>	<u>\$ 10,532,032</u>	<u>\$ 1,114,346</u>	<u>\$ 44,931,352</u>

City of Valley City, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2017

	Electric	Water	Sewer	Garbage	Total
Operating Revenues					
Utility sales and service charges	\$ 7,624,185	\$ 1,463,889	\$ 756,044	\$ 835,135	\$ 10,679,253
Forfeited discounts and penalties	3,378	679	422	439	4,918
Landfill fees	-	-	-	211,683	211,683
Total operating revenues	<u>7,627,563</u>	<u>1,464,568</u>	<u>756,466</u>	<u>1,047,257</u>	<u>10,895,854</u>
Operating Expenses					
Production and pumping	34,932	421,745	-	-	456,677
Cost of power	4,820,596	-	-	-	4,820,596
Distribution expense	335,503	402,199	226,993	-	964,695
Landfill and collections	-	-	-	775,764	775,764
Customer accounts	57,853	13,744	1,122	6,503	79,222
Customer service and information	20,106	-	-	-	20,106
Administration and general	604,037	262,359	109,687	201,123	1,177,206
Depreciation	517,407	1,273,408	371,362	73,718	2,235,895
Costs of services contributed to city	33,709	9,410	312	-	43,431
Total operating expenses	<u>6,424,143</u>	<u>2,382,865</u>	<u>709,476</u>	<u>1,057,108</u>	<u>10,573,592</u>
Operating Income (Loss)	1,203,420	(918,297)	46,990	(9,851)	322,262
Nonoperating Revenues (Expenses)					
Net merchandising revenue					
gross revenue of \$302,176	23,268	9,743	188	17,772	50,971
Interest income	17,043	1,359	(19)	-	18,383
Interest on long-term debt	(1,493)	(41,547)	(2,319)	(315)	(45,674)
Total nonoperating revenues (expenses)	<u>38,818</u>	<u>(30,445)</u>	<u>(2,150)</u>	<u>17,457</u>	<u>23,680</u>
Income (Loss) Before Transfers and Capital Contributions	1,242,238	(948,742)	44,840	7,606	345,942
Transfers out	(1,060,000)	-	-	-	(1,060,000)
Contribution of capital assets	-	940,506	579,651	-	1,520,157
Change in Net Position	182,238	(8,236)	624,491	7,606	806,099
Net Position, Beginning 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>
Net Position, End of Year	<u>\$ 8,225,957</u>	<u>\$ 25,059,017</u>	<u>\$ 10,532,032</u>	<u>\$ 1,114,346</u>	<u>\$ 44,931,352</u>

City of Valley City, North Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2017

	Electric	Water	Sewer	Garbage	Total
Operating Activities					
Receipts from customers and users	\$ 7,542,135	\$ 1,476,115	\$ 749,720	\$ 1,047,291	\$ 10,815,261
Payments for cost of power	(4,820,596)	-	-	-	(4,820,596)
Payments to other vendors	(1,086,532)	(1,111,337)	(343,718)	(983,631)	(3,525,218)
Net cash from operating activities	<u>1,635,007</u>	<u>364,778</u>	<u>406,002</u>	<u>63,660</u>	<u>2,469,447</u>
Non-Capital Financing Activities					
Transfer (to) from other funds	(1,060,000)	-	-	-	(1,060,000)
Change in interfund balances	-	131,606	(793,087)	-	(661,481)
Net cash from (used for) non-capital financing activities	<u>(1,060,000)</u>	<u>131,606</u>	<u>(793,087)</u>	<u>-</u>	<u>(1,721,481)</u>
Capital and Related Financing Activities					
Property and equipment additions	(448,733)	(230,576)	-	(178,125)	(857,434)
Payments on long-term debt					
Principal	-	(180,000)	(15,000)	-	(195,000)
Interfund special assessments payable	(4,418)	(45,445)	2,423	(750)	(48,190)
Interest	(1,493)	(41,547)	(2,319)	(315)	(45,674)
Net cash used for capital and related financing activities	<u>(454,644)</u>	<u>(497,568)</u>	<u>(14,896)</u>	<u>(179,190)</u>	<u>(1,146,298)</u>
Investing Activity					
Interest and dividends from (used for) investments	17,043	1,359	(93)	-	18,309
Change in Cash and Cash Equivalents	137,406	175	(402,074)	(115,530)	(380,023)
Cash and Cash Equivalents -					
Beginning of Year (including restricted cash)	3,284,876	286,593	502,942	603,701	4,678,112
End of Year (including restricted cash)	<u>\$ 3,422,282</u>	<u>\$ 286,768</u>	<u>\$ 100,868</u>	<u>\$ 488,171</u>	<u>\$ 4,298,089</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 1,203,420	\$ (918,297)	\$ 46,990	\$ (9,851)	\$ 322,262
Adjustments to reconcile operating income (loss) to net cash from operating activities					
Depreciation	517,407	1,273,408	371,362	73,718	2,235,895
Other income	23,268	9,743	188	17,772	50,971
Changes in assets and liabilities					
Accounts receivable	(108,696)	1,804	(6,934)	(17,738)	(131,564)
Inventories	(13,290)	4,844	-	-	(8,446)
Prepaid expenses	10,050	-	-	-	10,050
Deferred debits	-	180	-	-	180
Accounts payable	(32,870)	(5,774)	(5,521)	(319)	(44,484)
Accrued liabilities	-	(1,134)	(49)	-	(1,183)
Customer deposits	22,835	-	-	-	22,835
Other liabilities	351	4	(34)	78	399
Compensated absences payable	12,532	-	-	-	12,532
Net cash from operating activities	<u>\$ 1,635,007</u>	<u>\$ 364,778</u>	<u>\$ 406,002</u>	<u>\$ 63,660</u>	<u>\$ 2,469,447</u>
Schedule of Non-Cash Capital and Related Financing Activities					
Capital contributions	<u>\$ -</u>	<u>\$ 940,506</u>	<u>\$ 579,651</u>	<u>\$ -</u>	<u>\$ 1,520,157</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, 2017, 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 acquisition value.

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 \$30,000 per year for any one individual. The Aggregate Stop-Loss Attachment Point is \$493,493. Aggregate claims in excess of this amount 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.

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, 2017, as follows:

Paving Projects	3,123,606
Watermain Projects	217,812
Nonmajor Governmental Funds	
Storm Sewer Projects	84,206
Underground Construction	166,747

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, 2017, 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, 2017, 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, 2017

<u>Type</u>	<u>Fair Value</u>	<u>Maturities (in Years)</u>	
		<u>N/A</u>	<u>< 1</u>
Cash and cash equivalents			
Deposits	\$ 8,839,302	\$ 8,839,302	\$ -
Petty cash	1,200	1,200	-
Certificates of deposit	204,500	-	204,500
	<u>\$ 9,045,002</u>	<u>\$ 8,840,502</u>	<u>\$ 204,500</u>

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

Cash and cash equivalents - Statement of Net Position	\$ 8,362,929
Restricted cash - Statement of Net Position	<u>682,073</u>
	<u>\$ 9,045,002</u>

Note 4 - Property Taxes and Special Assessments

Property Taxes

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

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

Special Assessments

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

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

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2017 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	18,595,167	7,665,529	7,398,930	18,861,766
Total capital assets not being depreciated	<u>18,768,967</u>	<u>7,665,529</u>	<u>7,398,930</u>	<u>19,035,566</u>
Capital assets, being depreciated:				
Infrastructure	31,394,073	5,663,959	-	37,058,032
Buildings and improvements	2,095,536	-	-	2,095,536
Machinery and equipment	1,044,168	239,709	-	1,283,877
Vehicles	3,006,006	104,181	42,501	3,067,686
Total capital assets being depreciated	<u>37,539,783</u>	<u>6,007,849</u>	<u>42,501</u>	<u>43,505,131</u>
Less accumulated depreciation for:				
Infrastructure	4,815,959	926,457	-	5,742,416
Buildings and improvements	1,567,149	80,508	-	1,647,657
Machinery and equipment	900,998	46,054	-	947,052
Vehicles	1,468,191	338,069	25,356	1,780,904
Total accumulated depreciation	<u>8,752,297</u>	<u>1,391,088</u>	<u>25,356</u>	<u>10,118,029</u>
Total capital assets being depreciated, net	<u>28,787,486</u>	<u>4,616,761</u>	<u>17,145</u>	<u>33,387,102</u>
Governmental activities capital assets, net	<u>\$ 47,556,453</u>	<u>\$ 12,282,290</u>	<u>\$ 7,416,075</u>	<u>\$ 52,422,668</u>

City of Valley City, North Dakota
Notes to Financial Statements
December 31, 2017

	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 424,693	\$ -	\$ -	\$ 424,693
Construction in progress	10,287	-	10,287	-
Total capital assets not being depreciated	<u>434,980</u>	<u>-</u>	<u>10,287</u>	<u>424,693</u>
Capital assets, being depreciated:				
Buildings and improvements	25,210,221	-	-	25,210,221
Machinery and equipment	7,730,788	467,398	154,013	8,044,173
Mains and lines	41,381,671	1,940,900	-	43,322,571
Total capital assets being depreciated	<u>74,322,680</u>	<u>2,408,298</u>	<u>154,013</u>	<u>76,576,965</u>
Less accumulated depreciation for:				
Buildings and improvements	5,383,224	467,712	-	5,850,936
Machinery and equipment	6,272,599	723,252	133,667	6,862,184
Mains and lines	21,085,555	1,044,930	-	22,130,485
Total accumulated depreciation	<u>32,741,377</u>	<u>2,235,895</u>	<u>133,667</u>	<u>34,843,605</u>
Total capital assets being depreciated, net	<u>41,581,303</u>	<u>172,403</u>	<u>20,346</u>	<u>41,733,360</u>
Business-type activities capital assets, net	<u>\$ 42,016,283</u>	<u>\$ 172,403</u>	<u>\$ 30,633</u>	<u>\$ 42,158,053</u>

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

Governmental activities:		
General government		\$ 50,960
Public safety		133,112
Public works		1,194,032
Culture and recreation		12,984
Total depreciation expense - governmental activities		<u>\$ 1,391,088</u>
Business-type activities:		
Electric		\$ 517,407
Water		1,273,408
Sewer facility		371,362
Garbage		73,718
Total depreciation expense - business-type activities		<u>\$ 2,235,895</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, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Special assessment bonds	\$ 9,498,072	\$ 2,150,000	\$ 912,204	\$ 10,735,868	\$ 930,740
Sales tax revenue bonds	3,235,614	1,392,500	200,688	4,427,426	247,444
Capital lease	427,633	-	23,038	404,595	23,857
Compensated absences	<u>100,154</u>	<u>91,139</u>	<u>67,698</u>	<u>123,595</u>	<u>123,595</u>
Governmental activity long-term debt	<u>\$ 13,261,473</u>	<u>\$ 3,633,639</u>	<u>\$ 1,203,628</u>	<u>\$ 15,691,484</u>	<u>\$ 1,325,636</u>
Business-type activities:					
Revenue bonds	\$ 2,010,000	\$ -	\$ 195,000	\$ 1,815,000	\$ 200,000
Compensated absences	<u>186,809</u>	<u>189,040</u>	<u>176,508</u>	<u>199,341</u>	<u>199,341</u>
Business-type activity long-term debt	<u>\$ 2,196,809</u>	<u>\$ 189,040</u>	<u>\$ 371,508</u>	<u>\$ 2,014,341</u>	<u>\$ 399,341</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, \$860,614 in sales tax revenue bonds issued in 2016 and \$1.39 million in sales tax revenue bonds issued in 2017. 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 \$265,655. Net sales tax revenue totaled \$2,008,266 for the year.

The \$2.15 million Refunding Improvement Bonds issued in 2017 and 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 \$356,727 as of December 31, 2017. 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>
2018	23,857	13,970
2019	24,706	13,106
2020	25,585	12,212
2021	330,447	5,929
Total	<u>\$ 404,595</u>	<u>\$ 45,217</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, 2017, 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>
2018	1,178,184	352,565	200,000	15,995
2019	1,172,400	324,922	200,000	13,295
2020	1,186,740	301,872	205,000	10,595
2021	1,171,404	277,472	210,000	7,750
2022	1,126,212	251,890	120,000	4,900
2023-2027	4,993,590	862,535	610,000	1,500
2028-2032	2,243,874	356,924	270,000	950
2033-2037	1,237,916	154,452	-	-
2038-2042	472,492	50,169	-	-
2043-2047	380,482	16,250	-	-
Total	<u>\$ 15,163,294</u>	<u>\$ 2,949,051</u>	<u>\$ 1,815,000</u>	<u>\$ 54,985</u>

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	\$ 170,204
Tax Increment Financing Bonds of 2008	4.50	2024	825,000	465,664
2011 Special Assessment Refunding Bonds	3.55 - 4.00	2031	4,090,000	2,320,000
2013 Refunding Improvement Bond	0.35 - 2.20	2026	955,000	525,000
2013 Sales Tax Revenue Bond	0.50 - 3.00	2028	2,900,000	2,200,000
2015 Improvement Bond	2.00 - 3.25	2040	4,545,000	3,955,000
2016 Refunding Improvement Bond	0.80 - 1.65	2026	1,295,000	1,150,000
2016 Sales Tax Revenue Bond	1.50	2047	860,614	834,926
2017 Refunding Improvement Bond	2.91	2047	2,150,000	2,150,000
2017 Sales Tax Revenue Bond	1.50	2047	1,392,500	1,392,500
Total				<u>\$ 15,163,294</u>
Business-type activities:				
2002 Drinking Water Revolving Loan Fund	2.5	2021	\$ 1,500,000	\$ 350,000
Wastewater Treatment Revenue				
Bond, series 2009	0.5	2025	260,000	200,000
Water Treatment Revenue Bond, series 2009	0.5	2030	4,485,031	1,265,000
Total				<u>\$ 1,815,000</u>

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, 2017, there were series of Industrial Revenue Bonds outstanding; the aggregate principal amount payable is \$2,910,000. 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, 2017, is as follows:

	Due From Other Funds	Due To Other Funds
General	\$ 946,125	\$ -
Infrastructure Renewal & Replacement	2,466,724	-
Watermain Projects	-	208,524
Paving Projects	-	2,953,372
Other governmental funds	-	250,953
Water	-	793,087
Sewer	793,087	-
	\$ 4,205,936	\$ 4,205,936

A summary of the City's interfund special assessment balances at December 31, 2017, is as follows:

	Interfund Special Assessments Receivable	Interfund Special Assessments Payable
Debt Service	\$ 390,112	\$ -
Electric	-	34,684
Water	-	343,263
Sewer	-	6,915
Garbage	-	5,250
	\$ 390,112	\$ 390,112

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

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 1,592,297	\$ 435,254
Watermain Projects	544,115	-
Infrastructure Renewal & Replacement	-	1,764,623
Paving Projects	503,091	-
Debt Service	111,472	-
Non-major governmental	880,129	371,227
Total governmental funds	3,631,104	2,571,104
Proprietary Funds		
Electric	-	1,060,000
Total proprietary funds	-	1,060,000
Total transfers	\$ 3,631,104	\$ 3,631,104

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 2017 was \$270,319 including Public Works in the amount of \$164,040. There was a \$7,000 payment using forfeiture funds in 2017. The City had a liability to the plan at December 31, 2017 of \$8,997.

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, 2017. For the ongoing Permanent Flood Protection project throughout Valley City the following commitments are outstanding: Phase III Permanent Flood Protection Buyout outstanding commitment of \$296,500 with a 25% local share of \$74,125. Phase II Permanent Flood Protection Construction commitment of \$12,240,000 with a 20% local share of \$2,448,000. Phase IV Permanent Flood Protection Buyout outstanding commitment of \$1,601,430 with a 25% local share of \$400,357.

The City entered into a contract with the NDDOT for a mill and overlay project along 7th Street Southeast for \$319,900 with a 19.07% local share of \$61,004.

Note 10 - Self-Insurance

The City implemented a self-insurance medical plan in March 1985 which includes a stop-loss provision at \$30,000 per year for any one individual. All aggregate claims in excess of \$493,493 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.

	2017	2016
Claims incurred but not reported at beginning of year	\$ 18,237	\$ 24,642
Claims incurred	378,832	629,496
Claims paid	(368,294)	(635,901)
Claims incurred but not reported at end of year	\$ 28,775	\$ 18,237

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. 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 second statement issued but not yet implemented that will significantly affect the City is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at the City in the year ended December 31, 2018.

The third statement issued but not yet implemented that will significantly affect the City is statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement will be implemented at the City in the year ended December 31, 2018.

The fourth statement issued but not yet implemented that will significantly affect the City is statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. This statement will be implemented at the City in the year ended December 31, 2019.

The fifth statement issued but not yet implemented that will significantly affect the City is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the City in the year ended December 31, 2019.

The final statement issued but not yet implemented that will significantly affect the City is statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the City in the year ended December 31, 2020.

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



Supplementary Information
December 31, 2017

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, 2017

	General Operations Department	City Financed Special Assessment Projects Department	Permanent Flood Protection Department	Building Reserve Department	Renewal and Replacement Department	Street Equipment Renewal and Replacement Department	Financing Reserves (BN) Department	Sewer Renewal & Replacement Department	Streets Department	Total General Fund
Revenues										
General property taxes	\$ 1,071,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,071,794
Special assessments	-	110,679	-	-	-	-	-	-	-	110,679
Franchise fees	-	-	-	-	-	-	-	61,341	-	61,341
Licenses and permits	51,086	-	-	-	-	-	-	-	-	51,086
Intergovernmental revenue	561,391	-	5,364,907	-	208,612	-	-	-	429,709	6,564,619
Fines and forfeitures	91,912	-	-	-	-	-	-	-	-	91,912
Miscellaneous revenue	201,233	-	-	-	19,695	-	-	-	108,339	329,267
Total revenues	<u>1,977,416</u>	<u>110,679</u>	<u>5,364,907</u>	<u>-</u>	<u>228,307</u>	<u>-</u>	<u>-</u>	<u>61,341</u>	<u>538,048</u>	<u>8,280,698</u>
Expenditures										
Current										
General government	949,127	-	-	-	-	-	-	-	-	949,127
Public safety	1,479,553	-	-	-	-	-	-	-	699,861	2,179,414
General government - other	235,986	-	-	-	-	-	-	-	-	235,986
Culture and recreation	38,647	-	-	-	-	-	-	-	-	38,647
Community development	-	-	-	-	316,256	-	-	-	-	316,256
Permanent flood protection	-	-	110,934	-	-	-	-	-	-	110,934
Miscellaneous	-	-	-	-	3,219	-	-	-	-	3,219
Capital outlay	48,033	-	6,813,410	-	-	42,157	-	-	-	6,903,600
Debt Service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	23,038	-	-	-	23,038
Interest	-	-	-	-	-	14,803	-	-	-	14,803
Total expenditures	<u>2,751,346</u>	<u>-</u>	<u>6,924,344</u>	<u>-</u>	<u>319,475</u>	<u>79,998</u>	<u>-</u>	<u>-</u>	<u>699,861</u>	<u>10,775,024</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	(773,930)	110,679	(1,559,437)	-	(91,168)	(79,998)	-	61,341	(161,813)	(2,494,326)
Other Financing Sources (Uses)										
Bond proceeds	-	-	1,392,500	-	-	-	-	-	-	1,392,500
Transfers in	1,131,346	-	-	3,282	127,669	130,000	-	-	200,000	1,592,297
Transfers out	(345,709)	(89,545)	-	-	-	-	-	-	-	(435,254)
Total other financing sources and uses	<u>785,637</u>	<u>(89,545)</u>	<u>1,392,500</u>	<u>3,282</u>	<u>127,669</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>2,549,543</u>
Net Change in Fund Balance	11,707	21,134	(166,937)	3,282	36,501	50,002	-	61,341	38,187	55,217
Fund Balance (Deficit), Beginning	1,316,879	(327,390)	(96,271)	-	70,532	74,314	523,480	279,955	(84,715)	1,756,784
Fund Balance (Deficit), Ending	<u>\$ 1,328,586</u>	<u>\$ (306,256)</u>	<u>\$ (263,208)</u>	<u>\$ 3,282</u>	<u>\$ 107,033</u>	<u>\$ 124,316</u>	<u>\$ 523,480</u>	<u>\$ 341,296</u>	<u>\$ (46,528)</u>	<u>\$ 1,812,001</u>

City of Valley City, North Dakota
 Nonmajor Governmental Funds
 Combined Balance Sheet
 December 31, 2017

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,711,517	\$ 70,952	\$ 1,782,469
Receivables			
Accounts	4,606	-	4,606
Taxes receivable - delinquent	4,601	-	4,601
Special Assessments			
Current	1,125	-	1,125
Deferred	3,000	-	3,000
Due from other governmental units	217,698	-	217,698
Total assets	<u>\$ 1,942,547</u>	<u>\$ 70,952</u>	<u>\$ 2,013,499</u>
Liabilities			
Accounts payable	\$ 1,225	\$ 70,212	\$ 71,437
Due to other funds	-	250,953	250,953
Total liabilities	<u>1,225</u>	<u>321,165</u>	<u>322,390</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	4,601	-	4,601
Unavailable revenue-special assessments	4,125	-	4,125
Total deferred inflows of resources	<u>8,726</u>	<u>-</u>	<u>8,726</u>
Fund balance (deficit)			
Restricted			
Community development	1,806,640	-	1,806,640
Emergency services	125,956	-	125,956
Capital projects	-	740	740
Unassigned	-	(250,953)	(250,953)
Total fund balance (deficit)	<u>1,932,596</u>	<u>(250,213)</u>	<u>1,682,383</u>
Total liabilities, deferred inflows and fund balance (deficit)	<u>\$ 1,942,547</u>	<u>\$ 70,952</u>	<u>\$ 2,013,499</u>

City of Valley City, North Dakota
 Nonmajor Governmental Funds
 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2017

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues			
General property taxes	\$ 164,135	\$ -	\$ 164,135
Special assessments	-	42,923	42,923
Intergovernmental revenue	12,497	27,151	39,648
Sales tax	1,272,994	-	1,272,994
Miscellaneous revenue	229,218	-	229,218
Total revenues	<u>1,678,844</u>	<u>70,074</u>	<u>1,748,918</u>
Expenditures			
General government - other	361,791	-	361,791
Culture and recreation	137,598	-	137,598
Community development	399,555	-	399,555
Capital outlay	-	243,388	243,388
Other	148,182	-	148,182
Total expenditures	<u>1,047,126</u>	<u>243,388</u>	<u>1,290,514</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	631,718	(173,314)	458,404
Other Financing Sources (Uses)			
Bonds issued	-	252,643	252,643
Transfers in	400,000	480,129	880,129
Transfers out	(371,227)	-	(371,227)
	<u>28,773</u>	<u>732,772</u>	<u>761,545</u>
Net Change in Fund Balance	660,491	559,458	1,219,949
Fund Balance (Deficit), Beginning of Year	<u>1,272,105</u>	<u>(809,671)</u>	<u>462,434</u>
Fund Balance (Deficit), End of Year	<u>\$ 1,932,596</u>	<u>\$ (250,213)</u>	<u>\$ 1,682,383</u>

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2017

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	Real Estate	City Sales Tax Economic	City Sales Tax Property
Assets							
Cash and cash equivalents	\$ 1,619	\$ 9,099	\$ 100,944	\$ -	\$ -	\$ 1,375,104	\$ 79,789
Receivables							
Accounts	-	-	-	-	-	-	-
Taxes receivable - delinquent	1,151	-	-	3,450	-	-	-
Special Assessments							
Current	-	1,125	-	-	-	-	-
Deferred	-	3,000	-	-	-	-	-
Due from other governmental units	74	-	-	225	-	94,291	33,675
Total assets	<u>\$ 2,844</u>	<u>\$ 13,224</u>	<u>\$ 100,944</u>	<u>\$ 3,675</u>	<u>\$ -</u>	<u>\$ 1,469,395</u>	<u>\$ 113,464</u>
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ 225	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>225</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources							
Unavailable revenue - property taxes	1,151	-	-	3,450	-	-	-
Unavailable revenue - special assessments	-	4,125	-	-	-	-	-
Total deferred inflow of resources	<u>1,151</u>	<u>4,125</u>	<u>-</u>	<u>3,450</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance							
Restricted for:							
Community development	1,693	9,099	-	-	-	1,469,395	113,464
Emergency services	-	-	100,944	-	-	-	-
Total fund balance	<u>1,693</u>	<u>9,099</u>	<u>100,944</u>	<u>-</u>	<u>-</u>	<u>1,469,395</u>	<u>113,464</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 2,844</u>	<u>\$ 13,224</u>	<u>\$ 100,944</u>	<u>\$ 3,675</u>	<u>\$ -</u>	<u>\$ 1,469,395</u>	<u>\$ 113,464</u>

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2017

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 25,507	\$ -	\$ 25,012	\$ 28,736	\$ 65,707	\$ 1,711,517
Receivables						
Accounts	-	-	-	4,606	-	4,606
Taxes receivable - delinquent	-	-	-	-	-	4,601
Special Assessments						
Current	-	-	-	-	-	1,125
Deferred	-	-	-	-	-	3,000
Due from other governmental units	6,735	67,351	-	-	15,347	217,698
Total assets	<u>\$ 32,242</u>	<u>\$ 67,351</u>	<u>\$ 25,012</u>	<u>\$ 33,342</u>	<u>\$ 81,054</u>	<u>\$ 1,942,547</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ 1,225
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>1,225</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	-	-	-	-	-	4,601
Unavailable revenue - special assessments	-	-	-	-	-	4,125
Total deferred inflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,726</u>
Fund balance						
Restricted for:						
Community development	32,242	67,351	-	32,342	81,054	1,806,640
Emergency services	-	-	25,012	-	-	125,956
Total fund balance	<u>32,242</u>	<u>67,351</u>	<u>25,012</u>	<u>32,342</u>	<u>81,054</u>	<u>1,932,596</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 32,242</u>	<u>\$ 67,351</u>	<u>\$ 25,012</u>	<u>\$ 33,342</u>	<u>\$ 81,054</u>	<u>\$ 1,942,547</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, 2017

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	Real Estate	City Sales Tax Economic	City Sales Tax Property
Revenues							
General property taxes	\$ 40,764	\$ -	\$ -	\$ 123,371	\$ -	\$ -	\$ -
Intergovernmental revenue	1,625	-	(3,934)	14,806	-	-	-
Sales tax	-	-	-	-	-	487,190	183,818
Miscellaneous revenue	-	8,680	-	-	-	221,152	-
Total revenues	<u>42,389</u>	<u>8,680</u>	<u>(3,934)</u>	<u>138,177</u>	<u>-</u>	<u>708,342</u>	<u>183,818</u>
Expenditures							
General government - other	-	-	-	-	-	-	-
Culture and recreation	-	-	-	137,598	-	-	-
Community development	41,564	-	-	-	-	357,991	-
Other	-	10,927	-	-	-	-	-
Total expenditures	<u>41,564</u>	<u>10,927</u>	<u>-</u>	<u>137,598</u>	<u>-</u>	<u>357,991</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	825	(2,247)	(3,934)	579	-	350,351	183,818
Other financing uses							
Transfers in	-	-	400,000	-	-	-	-
Transfers out	-	-	-	-	-	-	(190,000)
	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(190,000)</u>
Net change in fund balance	825	(2,247)	396,066	579	-	350,351	(6,182)
Fund balance (deficit), beginning 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>
Fund balance (deficit), end of year	<u>\$ 1,693</u>	<u>\$ 9,099</u>	<u>\$ 100,944</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,469,395</u>	<u>\$ 113,464</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, 2017

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
Revenues						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,135
Intergovernmental revenue	-	-	-	-	-	12,497
Sales tax	36,764	367,636	-	78,608	118,978	1,272,994
Miscellaneous revenue	35	-	(649)	-	-	229,218
Total revenues	<u>36,799</u>	<u>367,636</u>	<u>(649)</u>	<u>78,608</u>	<u>118,978</u>	<u>1,678,844</u>
Expenditures						
General government - other	-	260,359	-	101,432	-	361,791
Culture and recreation	-	-	-	-	-	137,598
Community development	-	-	-	-	-	399,555
Other	28,837	-	-	-	108,418	148,182
Total expenditures	<u>28,837</u>	<u>260,359</u>	<u>-</u>	<u>101,432</u>	<u>108,418</u>	<u>1,047,126</u>
Excess (deficiency) of revenues over (under) expenditures	7,962	107,277	(649)	(22,824)	10,560	631,718
Other financing uses						
Transfers in	-	-	-	-	-	400,000
Transfers out	-	(111,471)	(11,346)	-	(58,410)	(371,227)
	<u>-</u>	<u>(111,471)</u>	<u>(11,346)</u>	<u>-</u>	<u>(58,410)</u>	<u>28,773</u>
Net change in fund balance	7,962	(4,194)	(11,995)	(22,824)	(47,850)	660,491
Fund balance (deficit), beginning 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>
Fund balance (deficit), end of year	<u>\$ 32,242</u>	<u>\$ 67,351</u>	<u>\$ 25,012</u>	<u>\$ 32,342</u>	<u>\$ 81,054</u>	<u>\$ 1,932,596</u>

City of Valley City, North Dakota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2017

	Sidewalk Curb & Gutter Projects	Storm Sewer Projects	Storm Sewer 32	9th Avenue Northwest	Underground Construction	NW & West Storm Sewer	Total Nonmajor Capital Projects Funds
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 70,212	\$ -	\$ 740	\$ 70,952
Liabilities and Fund Deficit							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ 70,212	\$ -	\$ -	\$ 70,212
Due to other funds	-	84,206	-	-	166,747	-	250,953
Total liabilities	-	84,206	-	70,212	166,747	-	321,165
Fund Deficit							
Restricted for capital projects	-	-	-	-	-	740	740
Unassigned	-	(84,206)	-	-	(166,747)	-	(250,953)
Total liabilities, deferred inflows and fund deficit	\$ -	\$ -	\$ -	\$ 70,212	\$ -	\$ 740	\$ 70,952

City of Valley City, North Dakota
Nonmajor Capital Projects Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2017

	Sidewalk Curb & Gutter Projects	Storm Sewer Projects	Storm Sewer 32	9th Avenue Northwest	Underground Construction	NW & West Storm Sewer	Total Nonmajor Capital Projects Funds
Revenues							
Special assessments	\$ 42,923	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,923
Intergovernmental revenue	-	-	(1,784)	-	24,000	4,935	27,151
	<u>42,923</u>	<u>-</u>	<u>(1,784)</u>	<u>-</u>	<u>24,000</u>	<u>4,935</u>	<u>70,074</u>
Expenditures							
Capital outlay	176,236	14,214	(1,061)	28,514	6,532	18,953	243,388
Deficiency of revenues under expenditures	(133,313)	(14,214)	(723)	(28,514)	17,468	(14,018)	(173,314)
Other financing sources							
Bonds issued	-	-	-	-	252,643	-	252,643
Transfers in	133,313	-	113,705	31,783	186,570	14,758	480,129
Transfers out	-	-	-	-	-	-	-
	<u>133,313</u>	<u>-</u>	<u>113,705</u>	<u>31,783</u>	<u>439,213</u>	<u>14,758</u>	<u>732,772</u>
Net change in fund balance	-	(14,214)	112,982	3,269	456,681	740	559,458
Fund deficit, beginning of year	-	(69,992)	(112,982)	(3,269)	(623,428)	-	(809,671)
Fund deficit, end of year	<u>\$ -</u>	<u>\$ (84,206)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (166,747)</u>	<u>\$ 740</u>	<u>\$ (250,213)</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Revenues – Budget to Actual
 Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues			
General property taxes	\$ 1,118,600	\$ 1,071,794	\$ (46,806)
Licenses and permits			
Business	35,500	39,448	3,948
Nonbusiness	5,910	9,903	3,993
Animal	1,500	1,735	235
	<u>42,910</u>	<u>51,086</u>	<u>8,176</u>
Intergovernmental revenue			
State revenue sharing	375,100	341,506	(33,594)
State grants	18,000	9,778	(8,222)
Cigarette tax	20,000	18,945	(1,055)
Telecommunications tax	8,400	8,478	78
Homestead credit	38,000	42,669	4,669
Miscellaneous	3,000	140,015	137,015
	<u>462,500</u>	<u>561,391</u>	<u>98,891</u>
Fines and forfeitures			
City fines	90,500	91,912	1,412
Miscellaneous revenue			
Interest earnings	5,000	11,001	6,001
Rents	43,000	43,862	862
Miscellaneous revenue	79,050	86,002	6,952
Franchise fee	20,000	41,447	21,447
Other fees	11,100	18,921	7,821
	<u>158,150</u>	<u>201,233</u>	<u>43,083</u>
Total revenues	<u>\$ 1,872,660</u>	<u>\$ 1,977,416</u>	<u>\$ 104,756</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Expenditures			
General Government			
Council and mayor			
Salaries	\$ 44,705	\$ 45,850	\$ (1,145)
Miscellaneous expenditures	8,600	6,418	2,182
	<u>53,305</u>	<u>52,268</u>	<u>1,037</u>
Municipal court			
Salaries	97,140	93,062	4,078
Legal	3,500	1,062	2,438
Miscellaneous expense	16,190	12,693	3,497
	<u>116,830</u>	<u>106,817</u>	<u>10,013</u>
Assessor			
Salaries	127,202	129,767	(2,565)
Travel	1,000	971	29
BCBS self funding claims	8,927	7,440	1,487
Miscellaneous expense	21,456	19,679	1,777
	<u>158,585</u>	<u>157,857</u>	<u>728</u>
Auditor & City Administrator			
Salaries	275,797	258,074	17,723
Travel	2,300	1,747	553
Office supplies	3,300	2,864	436
Operating expenditures	17,710	17,361	349
	<u>299,107</u>	<u>280,046</u>	<u>19,061</u>
Attorney			
Salaries and legal	55,534	219,285	(163,751)
Operating expenditures	250	5,918	(5,668)
	<u>55,784</u>	<u>225,203</u>	<u>(169,419)</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
City Buildings			
Utilities	33,600	28,711	4,889
Operating expense	34,600	30,466	4,134
Repairs and maintenance	15,429	11,110	4,319
	<u>83,629</u>	<u>70,287</u>	<u>13,342</u>
Nondepartmental			
Blue Cross self funding	24,327	8,609	15,718
Blue Cross premium	2,782	5,223	(2,441)
Insurance	11,010	9,891	1,119
Audit	17,000	13,583	3,417
Miscellaneous	24,215	19,343	4,872
	<u>79,334</u>	<u>56,649</u>	<u>22,685</u>
Total general government	<u>846,574</u>	<u>949,127</u>	<u>(102,553)</u>
Public safety			
Police department			
Salaries	1,039,750	925,482	114,268
Investigation	16,000	16,000	-
Employee pension	76,692	62,642	14,050
Insurance	20,800	15,034	5,766
Operating expenditures	137,280	107,445	29,835
Building upkeep	1,000	747	253
Capital outlay	5,700	8,234	(2,534)
	<u>1,297,222</u>	<u>1,135,584</u>	<u>161,638</u>
Fire department			
Salaries	270,121	261,980	8,141
Insurance	4,800	4,625	175
Operating expenditures	58,250	57,413	837
Building upkeep	4,000	2,541	1,459
Capital outlay	500	2,008	(1,508)
	<u>337,671</u>	<u>328,567</u>	<u>9,104</u>
Civil defense			
Operating expenditures	2,000	1,344	656
Health	<u>24,300</u>	<u>24,300</u>	<u>-</u>
Total public safety	<u>1,661,193</u>	<u>1,489,795</u>	<u>171,398</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
General government - Other			
Planning and zoning	5,500	2,773	2,727
Community programs	25,100	24,350	750
Paving operating expenditures	50,000	37,791	12,209
Miscellaneous	105,250	208,863	(103,613)
	<u>185,850</u>	<u>273,777</u>	<u>(87,927)</u>
Total general government - other			
Culture and recreation			
Recreation center			
Operating expenditures	18,700	18,647	53
Auditorium/Armory			
Management fee	20,000	20,000	-
	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total culture and recreation	<u>38,700</u>	<u>38,647</u>	<u>53</u>
Economic development			
Industrial development	1,000	-	1,000
Total expenditures	<u>\$ 2,733,317</u>	<u>\$ 2,751,346</u>	<u>\$ (18,029)</u>

City of Valley City, North Dakota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Expenditures
Department of Transportation			
Passed through North Dakota			
Department of Transportation			
Highway Safety Cluster			
State and Community Highway Safety	20.600	DD17110211	\$ 665
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	OP17050523	3,698
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	DD17110211	25
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	ID17100218	3,373
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	ID18101211	318
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.616	ID18100215	<u>646</u>
Total for Highway Safety Cluster			\$ 8,725
Highway Planning Cluster			
Highway Planning and Construction	20.205	* NHU-2-093(083)929 PCN 16868	452,410
Highway Planning and Construction	20.205	* NHU-2-094(083)930 PCN 16869	262,736
Highway Planning and Construction	20.205	* NHU-2-095(083)931 PCN 20593	151,837
Highway Planning and Construction	20.205	* SPR-P034(200)	134,912
Total for Highway Planning Cluster			<u>1,001,895</u>
Total Department of Transportation			1,010,620
Department of Homeland Security			
Passed through North Dakota Department			
FEMA Assistance to Firefighters Grant	97.044	EMW-2016-FO-04099	<u>204,312</u>
Total Department of Homeland Security			204,312
U.S. Department of Agriculture (USDA)			
Passed through North Dakota			
Forest Service			
Cooperative Forestry Assistance	10.664	14-DG-11010000-011	6,000
Department of Justice			
Passed through North Dakota			
Department of Justice			
Bulletproof Vest Partnership Program	16.607	Unknown	<u>1,055</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,221,987</u></u>

* Denotes a major program

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Valley City, North Dakota, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The City received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient. There were no subrecipients for the year ended December 31, 2017.

Note B – Significant Accounting Policies

Governmental and proprietary fund types account for the City's federal grant activity. Expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City's summary of significant accounting policies is presented in Note 1 in the City's basic financial statements.

The City has not elected to use the 10% de minimis cost rate.



Additional Reports
December 31, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 7, 2018.

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 2017-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*.

City's Response to Finding

The City's response to the finding identified in our audit is described in corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
August 7, 2018



Independent Auditor’s Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Mayor and City Council
City of Valley City, North Dakota

Report on Compliance for the Major Federal Program

We have audited the City of Valley City, North Dakota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended December 31, 2017. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

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

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

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

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

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

Fargo, North Dakota
August 7, 2018

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Highway Planning and Construction	20.205
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Significant Deficiency

2017-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.

Section III – Federal Award Findings and Questioned Costs

None reported