

**CITY OF BEULAH
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2018

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CITY OF BEULAH, NORTH DAKOTA

CITY OFFICIALS

Mayor

Travis Frey

City Council

David Czywczynski
Loren Daede
Eric Hoffer
Kathy Kelsch
Gary Miller
David Ripplinger
Clyde Schulz
Kelsey Timmer

City Auditor

Heather Ferebee

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Beulah, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, aggregate discretely presented component units (except the Housing Authority), each major fund, and the aggregate remaining fund information of the City of Beulah, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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

Except for the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Disclaimer
General Fund	Unmodified
Water Plant Improvements Fund	Unmodified
Water Fund	Unmodified
Garbage Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Beulah Housing Authority, a component unit of the City, have not been audited, and we were not engaged to audit the Beulah Housing Authority's financials as a part of our audit of the City's basic financial statements. The Beulah Housing Authority's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 14 percent, -5 percent, and 11 percent of the assets, net position, and revenues, respectively, of the City's aggregate discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the City of Beulah, North Dakota. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Beulah, North Dakota, as of December 31, 2018, and, the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Beulah's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019, on our consideration of the City of Beulah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 of Beulah'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 of Beulah's internal controls over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

July 2, 2019

CITY OF BEULAH
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2018

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 4,318,686	\$ 1,632,379	\$ 5,951,065	\$ 338,873
Internal balances	786,219	(786,219)	-	-
Total current assets	5,104,905	846,160	5,951,065	338,873
Non-current assets:				
Construction in progress	44,890	-	44,890	-
Land	-	-	-	10,000
Capital assets, net of accumulated depreciation	15,660,128	12,818,103	28,478,231	2,303,178
Total non-current assets	15,705,018	12,818,103	28,523,121	2,313,178
Total assets	20,809,923	13,664,263	34,474,186	2,652,051
<u>LIABILITIES</u>				
Current liabilities:				
Customer deposits held	-	9,560	9,560	-
Current portion of long-term debt	688,745	51,473	740,218	33,804
Total current liabilities	688,745	61,033	749,778	33,804
Non-current liabilities:				
Non-current portion of long-term debt	5,014,324	53,192	5,067,516	695,084
Total liabilities	5,703,069	114,225	5,817,294	728,888
<u>NET POSITION</u>				
Net investment in capital assets	10,001,949	12,713,438	22,715,387	1,584,290
Restricted for:				
City Improvements	1,502,077	-	1,502,077	-
Roads	204,154	-	204,154	-
Retirement	22,959	-	22,959	-
Library	71,523	-	71,523	-
Emergency	175,982	-	175,982	-
Cemetery	86,937	-	86,937	-
Swimming Pool	197,821	-	197,821	-
Unrestricted	2,843,452	836,600	3,680,052	338,873
Total net position	\$ 15,106,854	\$ 13,550,038	\$ 28,656,892	\$ 1,923,163

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$1,236,394	\$ 107,734	\$ -	\$ 989,822	\$ (138,838)	\$ -	\$ (138,838)	
Public safety	662,798	28,290	228	-	(634,280)	-	(634,280)	
Highways and streets	1,636,490	-	-	-	(1,636,490)	-	(1,636,490)	
Culture and recreation	243,611	59,889	7,740	-	(175,982)	-	(175,982)	
Health and welfare	2,375	-	-	-	(2,375)	-	(2,375)	
Economic development	36,401	-	-	-	(36,401)	-	(36,401)	
Loss on disposal of fixed assets	126,752	-	-	-	(126,752)	-	(126,752)	
Interest on long-term debt	167,830	-	-	-	(167,830)	-	(167,830)	
Total governmental activities	4,112,651	195,913	7,968	989,822	(2,918,948)	-	(2,918,948)	
Business-type activities:								
Water	871,662	760,897	-	-	-	(110,765)	(110,765)	
Sewer	231,741	240,499	-	-	-	8,758	8,758	
Garbage	441,264	420,969	-	-	-	(20,295)	(20,295)	
Water meter	3,970	51,022	-	-	-	47,052	47,052	
Water equipment reserve	151,141	2,500	-	-	-	(148,641)	(148,641)	
Garbage equipment reserve	15,343	55,640	-	-	-	40,297	40,297	
Total business-type activities	1,715,121	1,531,527	-	-	-	(183,594)	(183,594)	
Total primary government	5,827,772	1,727,440	7,968	989,822	(2,918,948)	(183,594)	(3,102,542)	
Component units	344,026	192,040	15,797	-				\$ (136,189)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					483,977	-	483,977	84,398
Property taxes, levied for special purposes					523,645	-	523,645	-
Sales taxes					332,281	-	332,281	-
State aid distribution					154,802	-	154,802	17,478
Municipal highway tax					184,345	-	184,345	-
County road and bridge tax					21,029	-	21,029	-
Coal conversion tax					289,472	-	289,472	-
Coal severance tax					654,913	-	654,913	-
Cigarette tax					8,677	-	8,677	-
Investment earnings					6,578	-	6,578	223
Gain on disposal of fixed assets					-	-	-	16,100
Transfers					414,407	(414,407)	-	-
Miscellaneous					414,839	-	414,839	3,422
Total general revenues and transfers					3,488,965	(414,407)	3,074,558	121,621
Change in net position					570,017	(598,001)	(27,984)	(14,568)
Net position - beginning of year					14,536,837	14,148,039	28,684,876	1,937,731
Net position - end of year					\$ 15,106,854	\$ 13,550,038	\$28,656,892	\$1,923,163

See Notes to the Financial Statements

CITY OF BEULAH
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General Fund	Water Plant Improvements Fund	Non-major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,057,233	\$ 144,194	\$ 2,117,259	\$ 4,318,686
Due from other funds	786,219	-	-	786,219
Total assets	<u>\$ 2,843,452</u>	<u>\$ 144,194</u>	<u>\$ 2,117,259</u>	<u>\$ 5,104,905</u>
<u>FUND BALANCES</u>				
Fund balances:				
Restricted	\$ -	\$ 144,194	\$ 2,117,259	\$ 2,261,453
Unassigned	2,843,452	-	-	2,843,452
Total fund balances	<u>\$ 2,843,452</u>	<u>\$ 144,194</u>	<u>\$ 2,117,259</u>	<u>\$ 5,104,905</u>

See Notes to the Financial Statements

CITY OF BEULAH
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -
MODIFIED CASH BASIS
DECEMBER 31, 2018

Total Governmental Funds Balance	\$ 5,104,905
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Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	15,705,018
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(5,703,069)</u>
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Net Position of Governmental Activities	<u>\$15,106,854</u>
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See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Water Plant Improvements Fund	Non-major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Taxes	\$ 483,977	\$ -	\$ 523,645	\$ 1,007,622
License and permits	20,466	-	-	20,466
Intergovernmental	1,129,119	989,821	524,366	2,643,306
Charges for services	87,268	-	59,889	147,157
Fines and forfeitures	28,290	-	-	28,290
Interest	6,578	-	-	6,578
Miscellaneous	52,189	-	356,237	408,426
Total revenues	<u>1,807,887</u>	<u>989,821</u>	<u>1,464,137</u>	<u>4,261,845</u>
<u>EXPENDITURES</u>				
Current:				
General government	716,441	96	519,857	1,236,394
Public safety	662,798	-	-	662,798
Highways and streets	381,792	-	411,516	793,308
Culture and recreation	23,344	-	220,267	243,611
Health and welfare	2,375	-	-	2,375
Economic development	36,401	-	-	36,401
Debt Service:				
Principal retirement	-	59,093	581,353	640,446
Interest and fiscal charges	-	12,389	149,111	161,500
Capital outlays	-	1,786,925	272,964	2,059,889
Total expenditures	<u>1,823,151</u>	<u>1,858,503</u>	<u>2,155,068</u>	<u>5,836,722</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,264)</u>	<u>(868,682)</u>	<u>(690,931)</u>	<u>(1,574,877)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	198,846	131,316	218,402	548,564
Transfers out	(133,630)	-	(527)	(134,157)
Proceeds from insurance	-	-	6,416	6,416
Proceeds from issuance of debt	-	207,774	196,581	404,355
Total other financing sources and uses	<u>65,216</u>	<u>339,090</u>	<u>420,872</u>	<u>825,178</u>
Net change in fund balances	<u>49,952</u>	<u>(529,592)</u>	<u>(270,059)</u>	<u>(749,699)</u>
Fund balances - beginning of year	<u>2,793,500</u>	<u>673,786</u>	<u>2,387,318</u>	<u>5,854,604</u>
Fund balances - end of year	<u>\$ 2,843,452</u>	<u>\$ 144,194</u>	<u>\$ 2,117,259</u>	<u>\$ 5,104,905</u>

See Notes to the Financial Statements

CITY OF BEULAH
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE WITH THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balance - Governmental Funds \$ (749,699)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	2,059,889	
Depreciation expense	<u>(843,182)</u>	
Excess of capital outlay over depreciation expense		1,216,707

The net effect of insurance proceeds received on the loss of capital asset is a decrease in a net position.	(126,752)
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Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities.	(404,355)
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Government wide statements amortize discount on bonds payable over the over the life of the debt, while governmental funds recognize bond proceeds at issuance amount.	(6,330)
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Governmental funds report repayment of principal on long-term liabilities as an expenditure because the repayments use current financial resources. In contrast, the repayments reduce the balance of the long-term liabilities in the Statement of Net Position.

Note payable	7,192	
Bonds payable	566,990	
Capital lease	<u>66,264</u>	
Total long-term debt repayment		<u>640,446</u>

Change in Net Position	<u>\$ 570,017</u>
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See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Enterprise Funds			
	Water Fund	Garbage Fund	Non-major Enterprise Funds	Total Enterprise Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 944,552	\$ 47,180	\$ 640,647	\$ 1,632,379
Capital assets:				
Infrastructure	11,776,322	727,732	862,958	13,367,012
Equipment	65,050	539,500	94,662	699,212
Less: Accumulated depreciation	(822,090)	(309,801)	(116,230)	(1,248,121)
Total capital assets	11,019,282	957,431	841,390	12,818,103
Total assets	11,963,834	1,004,611	1,482,037	14,450,482
<u>LIABILITIES</u>				
Current liabilities:				
Due to other funds	-	786,219	-	786,219
Customer deposits held	9,560	-	-	9,560
Capital lease - current	-	51,473	-	51,473
Total current liabilities	9,560	837,692	-	847,252
Noncurrent liabilities:				
Capital lease - noncurrent	-	53,192	-	53,192
Total liabilities	9,560	890,884	-	900,444
<u>NET POSITION</u>				
Net investment in capital assets	11,019,282	852,766	841,390	12,713,438
Unrestricted	934,992	(739,039)	640,647	836,600
Total net position	\$ 11,954,274	\$ 113,727	\$ 1,482,037	\$ 13,550,038

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds			
	Water Fund	Garbage Fund	Non-major Enterprise Funds	Total Enterprise Funds
<u>OPERATING REVENUES</u>				
Charges for services	\$ 760,897	\$ 420,969	\$ 347,160	\$ 1,529,026
Miscellaneous	-	-	2,500	2,500
Total operating revenues	<u>760,897</u>	<u>420,969</u>	<u>349,660</u>	<u>1,531,526</u>
<u>OPERATING EXPENSES</u>				
Salaries and employee benefits	247,262	186,454	52,507	486,223
General maintenance and supplies	82,380	88,997	296,032	467,409
Chemicals and additives	47,844	-	2,443	50,287
Utilities	83,882	2,887	33,841	120,610
Fuel and vehicles	4,889	27,485	916	33,290
Depreciation	<u>405,405</u>	<u>130,281</u>	<u>42,686</u>	<u>578,372</u>
Total operating expenses	<u>871,662</u>	<u>436,104</u>	<u>428,425</u>	<u>1,736,191</u>
Operating income (loss)	(110,765)	(15,135)	(78,765)	(204,665)
<u>NONOPERATING REVENUES (EXPENSES)</u>				
Interest	-	(5,160)	-	(5,160)
Insurance reimbursement	-	-	26,230	26,230
Total nonoperating revenues (expenses)	<u>-</u>	<u>(5,160)</u>	<u>26,230</u>	<u>21,070</u>
Income (loss) before contributions and transfers	(110,765)	(20,295)	(52,535)	(183,595)
Transfers in	-	54,969	20,000	74,969
Transfers out	<u>(301,980)</u>	<u>-</u>	<u>(187,396)</u>	<u>(489,376)</u>
Change in net position	(412,745)	34,674	(219,931)	(598,002)
Net position - beginning of year	<u>12,367,019</u>	<u>79,053</u>	<u>1,701,968</u>	<u>14,148,040</u>
Net position - end of year	<u>\$ 11,954,274</u>	<u>\$ 113,727</u>	<u>\$ 1,482,037</u>	<u>\$ 13,550,038</u>

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF CASH FLOW – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Water	Garbage	Non-major enterprise funds	Total
Cash flows from operating activities:				
Receipts from customers	\$ 760,897	\$ 420,969	\$ 347,160	\$ 1,529,026
Receipts from others	-	-	2,500	2,500
Payments to suppliers	(218,995)	(119,369)	(333,232)	(671,596)
Payments to employees	(247,262)	(186,454)	(52,507)	(486,223)
Net cash provided (used) by operating activities	<u>294,640</u>	<u>115,146</u>	<u>(36,079)</u>	<u>373,707</u>
Cash flows from noncapital and related financing activities:				
Increase (decrease) in due to / due from	-	(83,988)	-	(83,988)
Increase (decrease) in customer deposits	3,129	-	-	3,129
Transfers in (out)	(301,980)	54,969	(167,396)	(414,407)
Net cash provided (used) by noncapital and related financing activities	<u>(298,851)</u>	<u>(29,019)</u>	<u>(167,396)</u>	<u>(495,266)</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(7,678)	-	(52,976)	(60,654)
Payment on capital lease obligations	-	(49,810)	-	(49,810)
Interest paid on capital lease obligations	-	(5,160)	-	(5,160)
Insurance reimbursement			26,230	
Net cash provided (used) by capital and related financing activities	<u>(7,678)</u>	<u>(54,970)</u>	<u>(26,746)</u>	<u>(115,624)</u>
Net change in cash and cash equivalents	(11,889)	31,157	(230,221)	(237,183)
Cash and cash equivalents - January 1	<u>956,441</u>	<u>16,023</u>	<u>870,868</u>	<u>1,843,332</u>
Cash and cash equivalents - December 31	<u>\$ 944,552</u>	<u>\$ 47,180</u>	<u>\$ 640,647</u>	<u>\$ 1,632,379</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (110,765)	\$ (15,135)	\$ (78,765)	\$ (204,665)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	<u>405,405</u>	<u>130,281</u>	<u>42,686</u>	<u>578,372</u>
Net cash provided (used) by operating activities	<u>\$ 294,640</u>	<u>\$ 115,146</u>	<u>\$ (36,079)</u>	<u>\$ 373,707</u>

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – MODIFIED CASH BASIS
AGENCY FUNDS
DECEMBER 31, 2018

	Occupancy Tax	Lodging Tax	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 37,319	\$ 155,468	\$ 192,787
<u>LIABILITIES</u>			
Amounts held in custody of others	\$ 37,319	\$ 155,468	\$ 192,787

See Notes to the Financial Statements

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 DESCRIPTION OF THE CITY

The City of Beulah operates under a City Council form of government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City's significant accounting policies are as described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information. Fiduciary activities are only reported in the fund financial statements.

Financial Reporting Entity

The financial statements of the reporting entity include those of the City of Beulah, North Dakota (the primary government). The financial statements also include audited information of two of the City's component units, the Airport Authority and the Job Development Association (JDA). In addition, the financial statements include the unaudited information of one of the City's component units, the Housing Authority. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of an organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the City. Fiscal dependence can include the City's approval of the budget, issuance of debt, and/or levying of taxes for the organization. Based on these criteria, the Airport Authority, Housing Authority, and JDA all qualify to be discretely presented component units of the City of Beulah. See the 'Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units' on page 3 of the audit report in regards to the unaudited component unit included in the City's financial statements.

Complete financial statements for the Airport Authority and JDA may be obtained at the City's administrative office. These component units were audited by Brady, Martz and Associates, P.C., for the year ended December 31, 2018, and separate reports were issued.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the reporting entity, except for fiduciary funds. The statements distinguish between governmental activities, which are normally financed through taxes and intergovernmental revenues, and business-type activities, which are normally financed in whole or in part by fees and charges for services.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The Statement of Net Position presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designated to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- 1) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- 2) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. There are three categories of funds: governmental, proprietary and fiduciary. The funds of the financial entity are described below:

Governmental Funds

General fund - The general fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Capital project funds - Capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

Debt service funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. This fund includes the accumulation of resources for, and payment of, special assessments debt, which is backed by the full faith and credit of the City of Beulah.

Major Funds

The funds are further classified as major or nonmajor. The City reports the following major funds:

Governmental

General fund as described above.

Water plant improvement, a debt service fund, is used to account for the accumulation of resources for, and the repayment of, principal, interest and related costs on the water improvement project.

Proprietary

Enterprise funds - Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds:

Water, an enterprise fund, is used to account for water services provided to the residents of the City.

Garbage, an enterprise fund, is used to account for garbage pickup services provided to the residents of the City, and transfer station and recycling services provided to the public.

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-wide financial statements

In the government-wide financial statements, both the governmental and business-type activities are prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Fund financial statements

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

All governmental funds and fiduciary funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary funds use an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected), deferred outflows, certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities), and deferred inflows are not recorded in these financial statements. In addition, the City has elected to show all capital assets prior to January 1, 2013 at insured values. Capital assets added subsequent to that date are recorded at cost. Under the modified cash basis of accounting, economic development loans are recorded as expenditures when advanced and collections on the notes receivables are recorded as income when received.

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

Budgets and Budgetary Accounting

The City Council follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or about October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

The City prepares its budget and reports its governmental funds on the same basis of accounting.

Cash and Cash Equivalents

The City considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except for certificates of deposit which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal.

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's cash and cash equivalents.

Capital Assets

Capital assets, which include infrastructure, property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All governmental and business-type activities capital assets in service as of December 31, 2012 are recorded at their appraised values at that time as an estimate of the historical cost. Additions made after 2012 are recorded at cost. The assets are updated for additions and retirements during the City's fiscal year. Improvements that significantly extend the useful life of the asset are also capitalized. Donated capital assets are recorded at acquisition value at the date of donation.

The City's capitalization policy is \$5,000 and an estimated useful life in excess of one year or more.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over their estimated useful lives on a straight-line basis. The City has established the following useful lives:

Buildings	30 years
Building improvements	15 – 25 years
Equipment	7 years
Vehicles	5 years

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and capital leases. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements. In the fund financial statements, governmental fund types recognize bond discounts during the current period.

Equity Classifications

Government-wide Financial Statements

Equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Restricted net position - Consists of net position with constraints placed on the use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position - All other net position that do not meet the definition of net investment in capital assets or restricted.

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

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

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

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

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

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

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

Interfund Transactions

In the process of aggregating the financial information for the government-wide statement of net position and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- 1) Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.
- 2) Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

- 3) Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- 4) Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- 1) Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.
- 2) Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the statement of activities.

Property Taxes

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1st of the year following the assessment date.

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15th. Penalty and interest are added on March 1st if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid.

Taxes are collected by the county and remitted monthly to the City.

Insurance Recoveries

Insurance recoveries are classified under miscellaneous revenue in the fund financial statements. These amounts are factored into gain/loss on the disposal of capital assets on the government wide financial statements, which is included in general government expenses on the statement of activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 3 DEPOSITS

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

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

Credit Risk:

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress
- (b) Securities sold under agreement to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above
- (c) Certificates of deposits fully insured by the federal deposit insurance corporation
- (d) Obligations of the state
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

As of December 31, 2018, the City had investments in certificates of deposits as authorized by statutes. These amounts are classified as cash and cash equivalents on the financial statements in accordance with the City's policy.

Custodial Credit Risk

This is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The City maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2018, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$5,656,160 of the City's deposits are covered by pledged securities held in the City's name. The total securities pledged exceed 110% of the uninsured balance.

Concentration of Credit Risk:

The City does not have a limit on the amount the City may invest in any one issuer. The City has no formal investment policy.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 4 INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances between primary government funds at December 31, 2018 is:

<u>Fund</u>	<u>Due To</u>	<u>Due From</u>
Governmental Funds		
General Fund	\$ 786,219	\$ -
Proprietary Funds		
Garbage Fund	<u>-</u>	<u>786,219</u>
Total all funds	<u>\$ 786,219</u>	<u>\$ 786,219</u>

These advances were made to cover expenditure payments made out of this fund before the fund could collect fees to cover the expenditures. The fund will repay these advances as funds become available.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/18</u>
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	<u>\$ 3,419,090</u>	<u>\$1,831,815</u>	<u>\$(5,206,015)</u>	<u>\$ 44,890</u>
Capital assets being depreciated:				
Equipment	1,323,156	253,074	(121,000)	1,455,230
Infrastructure	<u>11,650,577</u>	<u>5,134,196</u>	<u>-</u>	<u>16,784,773</u>
Total capital assets being depreciated	<u>12,973,733</u>	<u>5,387,270</u>	<u>(121,000)</u>	<u>18,240,003</u>
Less accumulated depreciation:				
Equipment	357,929	258,374	(41,067)	575,236
Infrastructure	<u>1,419,831</u>	<u>584,808</u>	<u>-</u>	<u>2,004,639</u>
Total accumulated depreciation	<u>1,777,760</u>	<u>843,182</u>	<u>(41,067)</u>	<u>2,579,875</u>
Total capital assets being depreciated, net	<u>11,195,973</u>	<u>4,544,088</u>	<u>(79,933)</u>	<u>15,660,128</u>
Net capital assets	<u>\$14,615,063</u>	<u>\$6,375,903</u>	<u>\$(5,285,948)</u>	<u>\$15,705,018</u>

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Business type activities

Capital assets being depreciated:

Equipment	\$ 699,212	\$ -	\$ -	\$ 699,212
Infrastructure	13,306,356	60,656		13,367,012
Total capital assets being depreciated	<u>14,005,568</u>	<u>60,656</u>	<u>-</u>	<u>14,066,224</u>

Less accumulated depreciation:

Equipment	200,769	132,520		333,289
Infrastructure	468,981	445,851		914,832
Total accumulated depreciation	<u>669,750</u>	<u>578,371</u>	<u>-</u>	<u>1,248,121</u>

Net capital assets

<u>\$13,335,818</u>	<u>\$ (517,715)</u>	<u>\$ -</u>	<u>\$12,818,103</u>
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Component units *

Capital assets not being depreciated:

Construction in progress	\$ 144,092	\$ 191,638	\$ (335,730)	\$ -
Land	10,000	-	-	10,000

Capital assets being depreciated:

Equipment	97,431	17,732	(26,065)	89,098
Buildings	1,794,135	335,730	-	2,129,865
Building improvements	15,000	-	-	15,000
Infrastructure	1,138,291	-	-	1,138,291
Total capital assets being depreciated	<u>3,044,857</u>	<u>353,462</u>	<u>(26,065)</u>	<u>3,372,254</u>

Less accumulated depreciation:

Equipment	33,791	16,638	(26,065)	24,364
Buildings	417,850	37,601	-	455,451
Building improvements	250	600	-	850
Infrastructure	542,502	45,909	-	588,411
Total accumulated depreciation	<u>994,393</u>	<u>100,748</u>	<u>(26,065)</u>	<u>1,069,076</u>

Total capital assets being depreciated, net	<u>2,050,464</u>	<u>252,714</u>	<u>-</u>	<u>2,303,178</u>
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Net capital assets

<u>\$ 2,204,556</u>	<u>\$ 444,352</u>	<u>\$ (335,730)</u>	<u>\$ 2,313,178</u>
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* The component units include the Housing Authority which was unaudited. See the Independent Auditor's report for more information. As of December 31, 2018, the Housing Authority balances include:

Buildings	\$550,000
Accumulated depreciation – buildings	183,333
Depreciation expense	18,333

Depreciation expense for the governmental activities of \$843,182 was charged to Highways and Streets in the Statement of Activities.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The City has entered into a lease agreement as lessee for financing the acquisition of a garbage truck. This lease qualified as a capital lease for accounting purposes and therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. Below are details on the capitalized asset as of December 31, 2018.

Buildings	\$1,407,448
Equipment	257,642
Accumulated amortization	<u>(226,945)</u>
Total	<u>\$ 1,438,145</u>

NOTE 6 LONG TERM DEBT

The following is a summary of long term debt transactions of the City of Beulah for the year ended December 31, 2018:

	Balance 1/1/18	Additions	Reductions	Balance 12/31/18	Due Within One Year
Governmental activities					
Note payable	\$ 22,506	\$ 158,365	\$ (7,192)	\$ 173,679	\$ 37,327
Capital lease	1,078,748	-	(66,265)	1,012,483	69,838
Special assessments	3,060,000	-	(465,000)	2,595,000	470,000
Revenue bonds payable	1,812,897	245,990	(101,990)	1,956,897	111,580
Bond discount	(41,320)	-	6,330	(34,990)	-
Total	<u>\$ 5,932,831</u>	<u>\$ 404,355</u>	<u>\$ (634,117)</u>	<u>\$ 5,703,069</u>	<u>\$ 688,745</u>
Business type activities					
Capital lease	<u>\$ 154,474</u>	<u>\$ -</u>	<u>\$ (49,809)</u>	<u>\$ 104,665</u>	<u>\$ 51,473</u>
Component units *					
Notes payable	\$ 187,100	\$ 88,489	\$ (16,706)	\$ 258,883	\$ 23,482
Revenue bonds payable	479,873	-	(9,867)	470,006	10,322
Total	<u>\$ 666,973</u>	<u>\$ 88,489</u>	<u>\$ (26,573)</u>	<u>\$ 728,889</u>	<u>\$ 33,804</u>

* The component units include the Housing Authority which was unaudited. See the Independent Auditor's report for more information. As of December 31, 2018, the Housing Authority balances include:

Revenue bonds payable	\$470,006
Payments made on bonds	(9,867)
Due within one year	10,322

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Long term debt at December 31, 2018 consists of the following individual issues:

Governmental activities:	Balance 12/31/18
<u>Note payable:</u>	
Note payable dated September 15, 2017. Payable in annual installments of \$8,149 beginning December 15, 2017, including interest at 4.25% through December 15, 2020. Paid by the Equipment Service Fund. Secured by police vehicle.	\$ 15,314
Note payable dated October 3, 2018. Payable in annual installments of \$34,580 beginning October 3, 2019, including interest at 3% through October 3, 2023. Paid by the Equipment Service Fund. Secured by Cat Loader.	158,365
Total notes payable	173,679
<u>Capital lease:</u>	
Capital lease for acquisition of pool. Payable in semi-annual installments of \$61,414, beginning February 1, 2010, including interest at 5.25% through August 1, 2029. Paid by the Swimming Pool fund.	\$ 1,012,483
<u>Special assessments:</u>	
\$3,600,000 Refunding Improvement Bonds of 2011 (Street Improvement District #22) - due in annual principal installments of \$320,000 to \$395,000 through May 1, 2021; semi-annual interest payments with interest rates of .60% to 2.950% (less discount of \$16,500 as of December 31, 2017). Paid by the Special Assessment #22 fund.	1,038,000
\$800,000 Refunding Improvement Bonds of 2015 (Street Improvement District #23) - due in annual principal installments of \$50,000 to \$55,000 through May 1, 2030; semi-annual interest payments with interest rates of 1.50% to 3.50% (less discount of \$10,400 as of December 31, 2017). Paid by the Street Improvement District #23 fund.	625,400
\$1,030,000 Refunding Improvement Bonds of 2016 (Street Improvement District #24; Street Improvement District #25) - due in annual principal installments of \$60,000 to \$80,000 through May 1, 2031; semi-annual interest payments with interest rates of 1.50% to 3.15% (less discount of \$14,420 as of December 31, 2017). Paid by the Street Improvement District #24 and Street Improvement District #25 funds.	896,610
Total special assessments	2,560,010

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Revenue bonds payable:

\$586,800 Revenue Bonds of 2014 (Sewer Project) - due in annual principal installments of \$25,000 to \$40,000 through September 1, 2033; semi-annual interest payments with interest rate of 2.00%. Paid by the South Lagoon Revenue Bond fund. \$ 485,000

\$480,000 Revenue Bonds of 2017 (Water Meter Project), \$441,097 issued as of December 31, 2017 - due in annual principal installments of \$20,000 to \$30,000 through September 1, 2037; semi-annual interest payments with interest rate of 1.50%. Paid by the Water Meter Project fund. 405,000

\$880,000 Revenue Bonds of 2017 (Water Plant Project) - due in annual installments of \$51,193 beginning May 1, 2018, including interest at 1.50% through May 1, 2037. Paid by the Water Plant Improvements fund. 840,907

\$530,000 Revenue Bonds of 2017 (Water Treatment Plant), \$207,774 issued as of December 31, 2018 - due in annual principal installments of \$20,000 to \$30,000 through September 1, 2037; semi-annual interest payments with interest rate of 1.50%. Paid by the Water Plant Improvements fund. 187,774

\$345,000 Revenue Bonds of 2018 (Lime Sludge Removal Project), \$38,216 issued as of December 31, 2018 - due in annual principal installments of \$8,000 to \$15,000 through September 1, 2048; semi-annual interest payments with interest rate of 1.50%. Paid by the South Lagoon Lime Removal Project Fund. 38,216

Total revenue bonds payable 1,956,897

Total long term debt - Governmental activities \$ 5,703,069

Business-type activities:

Capital lease:

Capital lease for acquisition of garbage truck. Payable in annual installments of \$54,969, beginning June 15, 2016, including interest at 3.34% through June 15, 2020. Paid by the Garbage fund. \$ 104,665

Special assessments on benefited property are used to pay for the improvement costs. The City is legally obligated to meet any deficiencies by levying an ad valorem tax.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Component units:

Notes payable:

\$111,300 Note payable - due in monthly payments of \$787 through June 2027; interest rate of 5.75%	\$ 63,806
\$187,000 Note payable - due in monthly payments of \$1,257 through June 2028; interest rate of 5.75%.	110,179
\$88,500 Note payable - due in monthly payments of \$950 through May 2021; interest rate of 3.5%	<u>84,898</u>
Total notes payable	<u>258,883</u>

Revenue bonds payable:

\$550,000 Revenue Bonds of 2008 - due in monthly installments of \$2,605 through February 1, 2044; interest rate of 4.50%. (Housing Authority - unaudited)	<u>470,006</u>
Total long term debt - Component units	<u><u>\$ 728,889</u></u>

The future expected requirements to amortize long-term debt, including interest, as of December 31, 2018 are as follows:

Governmental activities

	Notes Payable		Capital Leases		Special Assessments	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 37,327	\$ 5,402	\$ 69,838	\$ 52,990	\$ 470,000	\$ 65,391
2020	38,540	4,189	73,473	49,355	470,000	54,129
2021	31,645	2,934	77,568	45,260	470,000	41,462
2022	32,594	1,985	81,752	41,076	120,000	33,267
2023	33,573	1,007	86,162	36,666	120,000	30,234
2024-2028	-	-	505,608	108,532	610,000	100,360
2029-2033	-	-	118,082	4,748	335,000	14,761
Bond discount	-	-	-	-	(34,990)	34,990
	<u>\$ 173,679</u>	<u>\$ 15,517</u>	<u>\$1,012,483</u>	<u>\$ 338,627</u>	<u>\$2,560,010</u>	<u>\$ 374,594</u>

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

	Revenue Bonds Payable		Total	
	Principal	Interest	Principal	Interest
2019	\$ 111,580	\$ 41,214	\$ 688,745	\$ 164,997
2020	123,158	39,415	705,171	147,088
2021	123,746	37,418	702,959	127,074
2022	124,342	35,411	358,688	111,739
2023	119,163	33,396	358,898	101,303
2024-2028	541,908	106,033	1,657,516	314,925
2029-2033	520,683	48,583	973,765	68,092
2034-2038	292,317	10,905	292,317	10,905
Bond discount	-	-	(34,990)	34,990
	<u>\$1,956,897</u>	<u>\$ 352,375</u>	<u>\$5,703,069</u>	<u>\$1,081,113</u>

Business-type activities

	Capital Leases	
	Principal	Interest
2019	\$ 51,473	\$ 3,496
2020	53,192	1,777
	<u>\$ 104,665</u>	<u>\$ 5,273</u>

Component units *

	Notes Payable		Revenue Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 23,482	\$ 12,451	\$ 10,322	\$ 20,938	\$ 33,804	\$ 33,389
2020	24,667	11,265	10,738	20,522	35,405	31,787
2021	84,201	8,762	11,289	19,971	95,490	28,733
2022	17,721	6,812	11,808	19,452	29,529	26,264
2023	18,769	5,765	12,350	18,910	31,119	24,675
2024-2028	90,043	11,467	70,693	85,607	160,736	97,074
2029-2033	-	-	88,563	67,737	88,563	67,737
2034-2038	-	-	110,872	45,428	110,872	45,428
2039-2043	-	-	138,801	17,499	138,801	17,499
2044-2048	-	-	4,570	25	4,570	25
	<u>\$ 258,883</u>	<u>\$ 56,522</u>	<u>\$ 470,006</u>	<u>\$ 316,089</u>	<u>\$ 728,889</u>	<u>\$ 372,611</u>

* The component unit future maturities include the maturities of the Housing Authority's revenue bond, which is unaudited. See the Independent Auditor's Report for additional information.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 7 RISK MANAGEMENT

The City is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City participates in the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 8 PENSION PLAN

The City sponsors a defined contributions pension plan administered by Mainstay through New York Life. The plan and contribution requirements were established and may be amended by the City Council. The plan covers substantially all full-time permanent employees. This plan requires employer contributions of 8% of each participating employee's gross wage. City contributions to the retirement program amounted to \$86,341 in 2018, \$84,144 in 2017, and \$81,286 in 2016. The plan does not include provisions for employee contributions. The City's policy is to fund all pension costs accrued. Since the pension plan is a "money purchase plan," actuarially computed vested benefits do not exceed the pension plan.

NOTE 9 CONCENTRATIONS OF CREDIT RISK

The City of Beulah, North Dakota, collects taxes and special assessments from constituents located within the city limits.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 10 FUND BALANCE/NET POSITION

At December 31, 2018, a summary of the governmental fund balance classifications are as follows:

	General Fund	Water Plant Improvements Fund	Non-major Governmental Funds	Total
Restricted for:				
City Improvements	\$ -	\$ 144,194	\$ 1,357,883	\$ 1,502,077
Roads	-	-	204,154	204,154
Retirement	-	-	22,959	22,959
Library	-	-	71,523	71,523
Emergency	-	-	175,982	175,982
Cemetery	-	-	86,937	86,937
Swimming Pool	-	-	197,821	197,821
Unassigned	2,843,452	-	-	2,843,452
	<u>\$ 2,843,452</u>	<u>\$ 144,194</u>	<u>\$ 2,117,259</u>	<u>\$ 5,104,905</u>

NOTE 11 LEGAL COMPLIANCE (BUDGETS)

The City's governing board amended the budgets during the year ended December 31, 2018. Amounts recorded for original and final budget are shown in the budget to actual schedules included with the supplementary information.

The City's had expenditures that exceeded budgeted appropriations for the following funds for the year ended December 31, 2018.

Pension Plan Clearing - fund 2105	\$ 288,653
Equipment Service - fund 2015	175,157
South Lagoon Lime Removal Project Fund - fund 3131	44,890
Municipal Highway - fund 2010	43,131
Swimming Pool - fund 2312	4,812
Emergency - fund 2060	4,564
South Lagoon Revenue Bonds - fund 3130	2,239
Special Assessment #22 - fund 3120	484
Street Improvement District #23 - fund 3123	432

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 12 TRANSFERS

The following is a reconciliation of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2018:

Fund	Transfers In	Transfers Out
Governmental Funds:		
General	\$ 198,846	\$ 133,630
Water Plant Improvement	131,316	-
Non-major	218,402	527
Proprietary Funds:		
Water	-	301,980
Garbage	54,969	-
Non-major	20,000	187,396
	\$ 623,533	\$ 623,533

The purpose for the above transfers in for the general fund were to balance the budget at year end. The purpose for the above transfers in for the water plant improvement were to cover bond payments and reserve requirements. The above transfer to the garbage fund was for the garbage truck loan payment, and the non-major fund transfers in were to cover negative fund balances, close balances, and cover expenses for the year.

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measureable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

NOTE 14 COMMITMENTS

The City has the South Lagoon Lime Sludge Removal Project in progress as of December 31, 2018. This project has an expected total cost of approximately \$324,000 and has a remaining estimated cost to complete of approximately \$279,000. As of December 31, 2018, the City has paid approximately \$45,000. A loan will support the expenditure.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The City's other commitments include a pledge to the Sakakawea Medical Center Foundation. The pledge was for \$100,000 to be paid in equal annual installments over five years. As of December 31, 2018, the City has paid \$80,000. The remaining amount of the pledge is \$20,000, to be paid out of the general fund.

NOTE 15 SUBSEQUENT EVENTS

Subsequent to year-end, the City approved a bid for repairs to the sewer infrastructure for \$709,459. The cost of repairs will be assessed to two different special assessment districts.

The City Council approved three resolutions on July 1, 2019 enabling City employees to participate in NDPERS. The three NDPERS' plans approved include the Main Plan, Public Safety Plan and the 457b defined contribution plan.

Subsequent events have been evaluated through July 2, 2019, which is the date these financial statements were available to be issued.

CITY OF BEULAH
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ 441,000	\$ 441,000	\$ 483,977	\$ 42,977
Licenses and permits	46,875	46,875	20,466	(26,409)
Intergovernmental	1,037,053	1,104,456	1,129,119	24,663
Charges for services	150,620	150,620	87,268	(63,352)
Fines and forfeits	30,900	30,900	28,290	(2,610)
Interest	5,000	5,000	6,578	1,578
Miscellaneous	56,000	56,000	52,189	(3,811)
Total revenues	<u>1,767,448</u>	<u>1,834,851</u>	<u>1,807,887</u>	<u>(26,964)</u>
EXPENDITURES				
Current:				
General government	811,208	807,418	716,441	90,977
Public safety	683,375	683,375	662,798	20,577
Highways and streets	334,530	334,530	381,792	(47,262)
Culture and recreation	20,000	23,700	23,344	356
Health and welfare	3,500	3,500	2,375	1,125
Economic development	53,020	53,020	36,401	16,619
Total expenditures	<u>1,905,633</u>	<u>1,905,543</u>	<u>1,823,151</u>	<u>82,392</u>
Excess (deficiency) of revenues over expenditures	<u>(138,185)</u>	<u>(70,692)</u>	<u>(15,264)</u>	<u>55,428</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	255,870	255,870	198,846	(57,024)
Transfers out	<u>(50,000)</u>	<u>(51,147)</u>	<u>(133,630)</u>	<u>(82,483)</u>
Total other financing sources (uses)	<u>205,870</u>	<u>204,723</u>	<u>65,216</u>	<u>(139,507)</u>
Net change in fund balances	<u>\$ 67,685</u>	<u>\$ 134,031</u>	49,952	<u>\$ (84,079)</u>
Fund balance - beginning of year			2,793,500	
Fund balance - end of year			<u>\$ 2,843,452</u>	

CITY OF BEULAH
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
WATER PLANT IMPROVEMENTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental	\$ 745,018	\$ 1,328,912	\$ 989,821	\$ (339,091)
EXPENDITURES				
Current:				
General government	612,650	1,779,354	96	1,779,258
Debt service:				
Principal retirement	59,100	59,100	59,093	7
Interest and other charges	20,050	20,050	12,389	7,661
Capital outlays	-	-	1,786,925	(1,786,925)
Total expenditures	<u>691,800</u>	<u>1,858,504</u>	<u>1,858,503</u>	<u>1</u>
Excess (deficiency) of revenues over expenditures	<u>53,218</u>	<u>(529,592)</u>	<u>(868,682)</u>	<u>(339,090)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	135,018	135,018	131,316	(3,702)
Proceeds from issuance of debt	-	-	207,774	207,774
Total other financing sources (uses)	<u>135,018</u>	<u>135,018</u>	<u>339,090</u>	<u>204,072</u>
Net change in fund balances	<u>\$ 188,236</u>	<u>\$ (394,574)</u>	<u>(529,592)</u>	<u>\$ (135,018)</u>
Fund balance - beginning of year			<u>673,786</u>	
Fund balance - end of year			<u>\$ 144,194</u>	

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

To the City Council
City of Beulah, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units (except the Housing Authority), each major fund, and the aggregate remaining fund information of the City of Beulah, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Beulah, North Dakota's basic financial statements and have issued our report thereon dated July 2, 2019. In our report, our opinion was modified due to the fact the City had an unaudited component unit. Except for the scope limitation discussed in the preceding sentence, 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Beulah's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Beulah's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Beulah'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as 2018-001 that we considered to be a material weakness.

Compliance and Other Matters

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

City of Beulah's Response to Finding

The City of Beulah's response to the finding identified in our audit is described in the accompanying schedule of finding and response. City of Beulah'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.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

July 2, 2019

CITY OF BEULAH
SCHEDULE OF FINDING AND RESPONSE
DECEMBER 31, 2018

2018-001: Financial Statement Preparation - Material Weakness

Criteria

An appropriate system of internal controls requires that the City make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the City's personnel to maintain a working knowledge of current accounting principles and required financial statement disclosures.

Condition

The City's auditors prepared the financial statements as of December 31, 2018. In addition, a material adjusting entry was proposed in order to bring the financial statements in accordance with GAAP.

Cause

It is currently not cost effective for the City to maintain a working knowledge of current generally accepted accounting principles and required financial statement disclosures.

Effect

The control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

Recommendation

The City should consider the cost/benefit of maintaining current accounting knowledge, experience, and training in the application of generally accepted accounting principles commensurate with the City's financial statement and footnote disclosure reporting requirements.

Views of responsible officials

We requested the auditors draft the accompanying notes to the financial statements. We believe this circumstance is not unusual in an organization of our size. Management and those charged with governance accept the responsibility to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.