

AUDIT REPORT

CITY OF UNDERWOOD
Underwood, North Dakota

For the Years Ended December 31, 2021 and 2020

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF UNDERWOOD
Underwood, North Dakota

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CITY OF UNDERWOOD
Underwood, North Dakota

CITY OFFICIALS

Leon Weisenburger	Commission President
Zachary Heskin	Commission Vice-President
Paul Cabrera	Commissioner
Derrick Fischer	Commissioner
Daniel Saxberg	Commissioner
Courtney Blotske	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Underwood
Underwood, North Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Underwood, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the city as of December 31, 2021 and 2020, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the years then ended in accordance with modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the city, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the city's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 city's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the city's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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 budgeting comparison information and the schedules of fund activity arising from cash transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 budgeting comparison information and the schedules of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2022 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, 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'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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

July 22, 2022

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2021

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
ASSETS:					
Cash, Cash Equivalents and Investments	2,127,558.71	674,642.25	2,802,200.96	39,564.16	14,009.68
Capital Assets (net of accumulated depreciation):					
Buildings and Infrastructure	6,110,827.00	1,371,240.00	7,482,067.00	383,338.00	
Machinery and Vehicles	168,491.00		168,491.00		
Total Capital Assets	6,279,318.00	1,371,240.00	7,650,558.00	383,338.00	
Total Assets	8,406,876.71	2,045,882.25	10,452,758.96	422,902.16	14,009.68
LIABILITIES:					
Long-Term Liabilities:					
Due Within One Year:					
Capital Lease Payable	22,735.73		22,735.73		
General Obligation Bonds Payable	20,000.00		20,000.00		
Special Assessment Bonds Payable	385,000.00		385,000.00		
Revenue Bonds Payable				11,048.76	
Due After One Year:					
Capital Lease Payable	98,114.27		98,114.27		
General Obligation Bonds Payable	80,000.00		80,000.00		
Special Assessment Bonds Payable	3,225,000.00		3,225,000.00		
Revenue Bonds Payable				378,620.13	
Total Liabilities	3,830,850.00		3,830,850.00	389,668.89	
NET POSITION:					
Net Investment in Capital Assets	2,448,468.00	1,371,240.00	3,819,708.00	(6,330.89)	
Restricted for:					
Debt Service	417,705.24		417,705.24		
Water Pipeline Maintenance and Repair		15,113.44	15,113.44		
Water Main Replacement		56,818.45	56,818.45		
Water Meter Replacement		91,484.93	91,484.93		
Wastewater Replacement		124,226.99	124,226.99		
Special Purposes	966,881.54		966,881.54		
Unrestricted	742,971.93	386,998.44	1,129,970.37	39,564.16	14,009.68
Total Net Position	4,576,026.71	2,045,882.25	6,621,908.96	33,233.27	14,009.68

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2020

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
ASSETS:					
Cash, Cash Equivalents and Investments	1,929,185.25	625,614.71	2,554,799.96	37,355.04	17,483.68
Capital Assets (net of accumulated depreciation):					
Buildings and Infrastructure	6,403,308.00	1,411,082.00	7,814,390.00	391,671.00	
Machinery and Vehicles	30,872.00		30,872.00		
Total Capital Assets	6,434,180.00	1,411,082.00	7,845,262.00	391,671.00	
Total Assets	8,363,365.25	2,036,696.71	10,400,061.96	429,026.04	17,483.68
LIABILITIES:					
Long-Term Liabilities:					
Due Within One Year:					
General Obligation Bonds Payable	15,000.00		15,000.00		
Special Assessment Bonds Payable	395,000.00		395,000.00		
Revenue Bonds Payable				10,510.99	
Due After One Year:					
General Obligation Bonds Payable	100,000.00		100,000.00		
Special Assessment Bonds Payable	3,610,000.00		3,610,000.00		
Revenue Bonds Payable				389,668.89	
Total Liabilities	4,120,000.00		4,120,000.00	400,179.88	
NET POSITION:					
Net Investment in Capital Assets	2,314,180.00	1,411,082.00	3,725,262.00	(8,508.88)	
Restricted for:					
Debt Service	430,954.60		430,954.60		
Water Pipeline Maintenance and Repair		15,112.81	15,112.81		
Water Main Replacement		46,866.57	46,866.57		
Water Meter Replacement		74,898.83	74,898.83		
Wastewater Replacement		120,778.59	120,778.59		
Special Purposes	796,484.45		796,484.45		
Unrestricted	701,746.20	367,957.91	1,069,704.11	37,355.04	17,483.68
Total Net Position	4,243,365.25	2,036,696.71	6,280,061.96	28,846.16	17,483.68

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Net Activities - Modified Cash Basis
December 31, 2021

Functions/Programs	Net (Expense) Revenue and Change in Net Position						
	Program Revenues			Primary Government			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Housing Authority Economic Development
Primary Government							
<u>Governmental Activities:</u>							
General Government	168,910.39	9,726.77		(159,183.62)		(159,183.62)	
Public Safety	86,269.80	6,229.00	10,197.53	(69,843.27)		(69,843.27)	
Streets and Public Works	387,921.43		120,544.82	(267,376.61)		(267,376.61)	
Health and Welfare	5,469.00			(5,469.00)		(5,469.00)	
Culture and Recreation	62,628.59		3,262.50	(59,366.09)		(59,366.09)	
Other	28,242.78			(28,242.78)		(28,242.78)	
Interest on Long-Term Debt	100,408.75		349,619.10	249,210.35		249,210.35	
Total Governmental Activities	839,850.74	15,955.77	483,623.95	(340,271.02)		(340,271.02)	
<u>Business-Type Activities:</u>							
Water	311,516.04	251,043.45			(60,472.59)	(60,472.59)	
Sewer	70,261.77	67,981.53			(2,280.24)	(2,280.24)	
Garbage	73,556.11	70,738.90			(2,817.21)	(2,817.21)	
Total Business-Type Activities	455,333.92	389,763.88			(65,570.04)	(65,570.04)	
Total Primary Government	1,295,184.66	405,719.65	483,623.95	(340,271.02)	(65,570.04)	(405,841.06)	
Component Units							
Housing Authority	34,111.58	38,220.00					4,108.42
Economic Development	5,039.70		1,564.14				(3,475.56)
<u>General Revenues:</u>							
Taxes:							
Property taxes; levied for general purposes				151,822.19		151,822.19	
Property taxes; levied for special purposes				19,910.26		19,910.26	
City sales taxes				241,574.67		241,574.67	
Coal severance taxes				86,208.12			
Coal conversion taxes				24,212.29			
Cigarette taxes				1,792.49		1,792.49	
Oil and gas production taxes				24,701.62		24,701.62	
Homestead credit taxes				3,857.12			
Intergovernmental revenue not restricted to specific programs				66,765.94		66,765.94	
Earnings on investments and other revenue				76,411.78	21,755.58	98,167.36	278.69 1.56
Gain on trade-in of assets				28,676.00			
Transfers				(53,000.00)	53,000.00		
Total General Revenues and Transfers				672,932.48	74,755.58	604,734.53	278.69 1.56
Change in Net Position				332,661.46	9,185.54	341,847.00	4,387.11 (3,474.00)
Net Position - January 1				4,243,365.25	2,036,696.71	6,280,061.96	28,846.16 17,483.68
Net Position - December 31				4,576,026.71	2,045,882.25	6,621,908.96	33,233.27 14,009.68

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Net Activities - Modified Cash Basis
December 31, 2020

Net (Expense) Revenue and Change in Net Position								
Functions/Programs	Program Revenues			Primary Government			Component Units	
	Expenses	Charges for	Operating Grants	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
		Services	and Contributions					
Primary Government								
<u>Governmental Activities:</u>								
General Government	163,404.71	10,162.59		(153,242.12)		(153,242.12)		
Public Safety	83,122.68	6,654.00	55,215.07	(21,253.61)		(21,253.61)		
Streets and Public Works	452,597.11		61,068.59	(391,528.52)		(391,528.52)		
Health and Welfare	1,522.24			(1,522.24)		(1,522.24)		
Culture and Recreation	100,240.91	36.60	4,124.01	(96,080.30)		(96,080.30)		
Other	31,947.21			(31,947.21)		(31,947.21)		
Interest on Long-Term Debt	109,196.25		317,827.83	208,631.58		208,631.58		
Total Governmental Activities	942,031.11	16,853.19	438,235.50	(486,942.42)		(486,942.42)		
<u>Business-Type Activities:</u>								
Water	265,430.30	237,298.31			(28,131.99)	(28,131.99)		
Sewer	52,151.99	67,654.91			15,502.92	15,502.92		
Garbage	58,625.19	65,985.23			7,360.04	7,360.04		
Total Business-Type Activities	376,207.48	370,938.45			(5,269.03)	(5,269.03)		
Total Primary Government	1,318,238.59	387,791.64	438,235.50	(486,942.42)	(5,269.03)	(492,211.45)		
Component Units								
Housing Authority	33,995.52	38,440.00					4,444.48	
Economic Development	4,353.98		12,321.63					7,967.65
<u>General Revenues:</u>								
<u>Taxes:</u>								
Property taxes; levied for general purposes				129,748.82		129,748.82		
Property taxes; levied for special purposes				18,350.50		18,350.50		
City sales taxes				252,622.94		252,622.94		
Coal severance taxes				81,952.57		81,952.57		
Coal conversion taxes				24,215.71		24,215.71		
Cigarette taxes				2,049.33		2,049.33		
Oil and gas production taxes				16,222.71		16,222.71		
Homestead credit taxes				4,026.94		4,026.94		
Intergovernmental revenue not restricted to specific programs				56,859.38		56,859.38		
Earnings on investments and other revenue				59,848.99	6,844.68	66,693.67	138.43	1.56
Transfers				7,300.00	(7,300.00)			
Total General Revenues and Transfers				653,197.89	(455.32)	652,742.57	138.43	1.56
Change in Net Position				166,255.47	(5,724.35)	160,531.12	4,582.91	7,969.21
Net Position - January 1				4,066,426.07	2,059,944.77	6,126,370.84	23,083.54	9,514.47
Prior Period Adjustments (Note 12)				10,683.71	(17,523.71)	(6,840.00)	1,179.71	
Net Position - January 1, as Restated				4,077,109.78	2,042,421.06	6,119,530.84	24,263.25	9,514.47
Net Position - December 31				4,243,365.25	2,036,696.71	6,280,061.96	28,846.16	17,483.68

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2021

	Major Funds					Other	Total
	General	Municipal Highway	Sales Tax	Flood Water Special Assessment	2016 Street Construction	Governmental Funds	Governmental Funds
ASSETS:							
Cash, Cash Equivalents and Investments	641,043.84	289,349.47	480,138.09		398,428.44	318,598.87	2,127,558.71
FUND BALANCES:							
Restricted for:							
Streets and Public Works		289,349.47				57,700.59	347,050.06
Community and Economic Development			480,138.09				480,138.09
Culture and Recreation						30,766.29	30,766.29
Health and Welfare						20,239.68	20,239.68
Emergency Purposes						29,579.27	29,579.27
Public Buildings						32,453.40	32,453.40
Debt Service					398,428.44	19,276.80	417,705.24
Other Purposes						26,654.75	26,654.75
Assigned to:							
Equipment Replacement						101,928.09	101,928.09
Unassigned	641,043.84						641,043.84
Total Fund Balances	641,043.84	289,349.47	480,138.09	-	398,428.44	318,598.87	2,127,558.71

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2020

	Major Funds					Other	Total
	General	Municipal Highway	Sales Tax	Flood Water Special Assessment	2016 Street Construction	Governmental Funds	Governmental Funds
ASSETS:							
Cash, Cash Equivalents and Investments	626,820.29	264,087.17	403,990.78		394,835.59	239,451.42	1,929,185.25
FUND BALANCES:							
Restricted for:							
Streets and Public Works		264,087.17					264,087.17
Community and Economic Development			403,990.78				403,990.78
Culture and Recreation						24,889.86	24,889.86
Health and Welfare						22,031.56	22,031.56
Emergency Purposes						24,147.92	24,147.92
Public Buildings						32,290.23	32,290.23
Debt Service					394,835.59	36,119.01	430,954.60
Other Purposes						25,046.93	25,046.93
Assigned to:							
Equipment Replacement						74,925.91	74,925.91
Unassigned	626,820.29						626,820.29
Total Fund Balances	626,820.29	264,087.17	403,990.78	-	394,835.59	239,451.42	1,929,185.25

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2021

Total Fund Balances for Governmental Funds		2,127,558.71
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	9,029,690.00	
Less Accumulated Depreciation	<u>(2,750,372.00)</u>	
Net Capital Assets		6,279,318.00
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2021 are:		
Capital Lease Payable	(120,850.00)	
General Obligation Bonds Payable	(100,000.00)	
Special Assessments Bonds Payable	<u>(3,610,000.00)</u>	
Total Long-Term Liabilities		<u>(3,830,850.00)</u>
Total Net Position of Governmental Activities		<u><u>4,576,026.71</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2020

Total Fund Balances for Governmental Funds	1,929,185.25
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	8,982,065.00	
Less Accumulated Depreciation	<u>(2,547,885.00)</u>	
Net Capital Assets		6,434,180.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2020 are:

General Obligation Bonds Payable	(115,000.00)	
Special Assessments Bonds Payable	<u>(4,005,000.00)</u>	
Total Long-Term Liabilities		<u>(4,120,000.00)</u>

Total Net Position of Governmental Activities	<u>4,243,365.25</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2021

	Major Funds						
		Municipal		Flood Water		Other	Total
	General	Highway	Sales Tax	Special Assessment	2016 Street Construction	Governmental Funds	Governmental Funds
<u>Revenues:</u>							
Taxes	156,163.69		231,012.10	2,583.69	3,637.38	19,910.26	413,307.12
Special Assessments				115,281.59	199,533.55	34,803.96	349,619.10
Licenses, Permits and Fees	5,025.00						5,025.00
Intergovernmental	217,278.95	62,844.23				61,419.25	341,542.43
Charges for Services	4,251.77					450.00	4,701.77
Fines and Forfeits	6,229.00						6,229.00
Miscellaneous	47,376.65	1,523.39	542.73	1.46	22.68	26,944.87	76,411.78
Total Revenues	436,325.06	64,367.62	231,554.83	117,866.74	203,193.61	143,528.34	1,196,836.20
<u>Expenditures:</u>							
Current:							
General Government	161,943.39		1,300.00				163,243.39
Public Safety	85,969.80						85,969.80
Streets and Public Works	60,033.87	39,105.32				3,101.24	102,240.43
Health and Welfare	3,579.00					1,890.00	5,469.00
Culture and Recreation	2,332.67		34,107.52			13,448.40	49,888.59
Other	28,242.78						28,242.78
Debt Service:							
Principal				345,000.00		65,000.00	410,000.00
Interest and Service Charges				92,467.50		7,941.25	100,408.75
Total Expenditures	342,101.51	39,105.32	35,407.52	437,467.50	-	91,380.89	945,462.74
Excess (Deficiency) of Revenue							
Over Expenditures	94,223.55	25,262.30	196,147.31	(319,600.76)	203,193.61	52,147.45	251,373.46
<u>Other Financing Sources (Uses):</u>							
Transfers In				319,600.76	20,000.00	62,509.13	402,109.89
Transfers Out	(80,000.00)		(120,000.00)		(219,600.76)	(35,509.13)	(455,109.89)
Total Other Financing Sources (Uses)	(80,000.00)	-	(120,000.00)	319,600.76	(199,600.76)	27,000.00	(53,000.00)
Net Changes in Fund Balances	14,223.55	25,262.30	76,147.31	-	3,592.85	79,147.45	198,373.46
Fund Balance - January 1	626,820.29	264,087.17	403,990.78	-	394,835.59	239,451.42	1,929,185.25
Fund Balance - December 31	641,043.84	289,349.47	480,138.09	-	398,428.44	318,598.87	2,127,558.71

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2020

	Major Funds					Other	Total
	General	Municipal Highway	Sales Tax	Flood Water Special Assessment	2016 Street Construction	Governmental Funds	Governmental Funds
<u>Revenues:</u>							
Taxes	123,769.69		252,622.94	2,448.01	3,531.12	18,350.50	400,722.26
Special Assessments				105,939.77	183,452.69	28,435.37	317,827.83
Licenses, Permits and Fees	4,849.00						4,849.00
Intergovernmental	240,022.11	61,068.59				4,643.61	305,734.31
Charges for Services	4,788.59					525.00	5,313.59
Fines and Forfeits	6,654.00					36.60	6,690.60
Miscellaneous	25,342.19	1,525.85	792.64	2,929.03	42.55	29,216.73	59,848.99
Total Revenues	405,425.58	62,594.44	253,415.58	111,316.81	187,026.36	81,207.81	1,100,986.58
<u>Expenditures:</u>							
Current:							
General Government	145,487.71		12,250.00				157,737.71
Public Safety	82,822.68						82,822.68
Streets and Public Works	82,773.13	71,080.97				15,444.01	169,298.11
Health and Welfare	1,522.24						1,522.24
Culture and Recreation	5,397.67		63,155.68			18,947.56	87,500.91
Other	31,947.21						31,947.21
Debt Service:							
Principal				345,000.00		65,000.00	410,000.00
Interest and Service Charges				99,442.50		9,753.75	109,196.25
Total Expenditures	349,950.64	71,080.97	75,405.68	444,442.50	-	109,145.32	1,050,025.11
Excess (Deficiency) of Revenue Over Expenditures	55,474.94	(8,486.53)	178,009.90	(333,125.69)	187,026.36	(27,937.51)	50,961.47
<u>Other Financing Sources (Uses):</u>							
Transfers In	37,000.00	7,300.00		322,731.72	20,000.00	71,986.72	459,018.44
Transfers Out	(80,000.00)		(120,000.00)		(222,731.72)	(28,986.72)	(451,718.44)
Total Other Financing Sources (Uses)	(43,000.00)	7,300.00	(120,000.00)	322,731.72	(202,731.72)	43,000.00	7,300.00
Net Changes in Fund Balances	12,474.94	(1,186.53)	58,009.90	(10,393.97)	(15,705.36)	15,062.49	58,261.47
Fund Balance - January 1	655,888.18	256,425.54	421,854.45	1,413.48	397,149.52	218,149.90	1,950,881.07
Prior Period Adjustments (Note 12)	(41,542.83)	8,848.16	(75,873.57)	8,980.49	13,391.43	6,239.03	(79,957.29)
Fund Balance - January 1 as Restated	614,345.35	265,273.70	345,980.88	10,393.97	410,540.95	224,388.93	1,870,923.78
Fund Balance - December 31	626,820.29	264,087.17	403,990.78	-	394,835.59	239,451.42	1,929,185.25

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2021

Net Change in Fund Balances - Total Governmental Funds	198,373.46
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	-	
Current Year Depreciation Expense	<u>(304,388.00)</u>	(304,388.00)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	-	
Repayment of Debt	<u>410,000.00</u>	410,000.00

In the statement of activities, only the gain on the trade-in/disposal of capital assets is reported, whereas in the governmental funds, the result of this transaction has no effect on financial resources. Thus, the net effect of transactions (i.e., sales, trade-ins) is to increase net position.

28,676.00

Change in Net Position of Governmental Activities	<u><u>332,661.46</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2020

Net Change in Fund Balances - Total Governmental Funds	58,261.47
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	-	
Current Year Depreciation Expense	<u>(302,006.00)</u>	(302,006.00)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	-	
Repayment of Debt	<u>410,000.00</u>	<u>410,000.00</u>

Change in Net Position of Governmental Activities	<u>166,255.47</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2021

	<u>Major Enterprise Funds</u>			Total Enterprise Fund
	Water	Sewer	Garbage	
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	409,358.13	245,610.78	19,673.34	674,642.25
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depreciation):				
Buildings and Infrastructure	1,342,695.00	28,545.00		1,371,240.00
Total Assets	1,752,053.13	274,155.78	19,673.34	2,045,882.25
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,342,695.00	28,545.00		1,371,240.00
Restricted for:				
Water Pipeline Maintenance and Repair	15,113.44			15,113.44
Water Main Replacement	56,818.45			56,818.45
Water Meter Replacement	91,484.93			91,484.93
Wastewater Replacement		124,226.99		124,226.99
Unrestricted	245,941.31	121,383.79	19,673.34	386,998.44
Total Net Position	1,752,053.13	274,155.78	19,673.34	2,045,882.25

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2020

	<u>Major Enterprise Funds</u>			Total Enterprise Fund
	Water	Sewer	Garbage	
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	360,099.34	245,474.36	20,041.01	625,614.71
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depreciation):				
Buildings and Infrastructure	1,381,672.00	29,410.00		1,411,082.00
Total Assets	1,741,771.34	274,884.36	20,041.01	2,036,696.71
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,381,672.00	29,410.00		1,411,082.00
Restricted for:				
Water Pipeline Maintenance and Repair	15,112.81			15,112.81
Water Main Replacement	46,866.57			46,866.57
Water Meter Replacement	74,898.83			74,898.83
Wastewater Replacement		120,778.59		120,778.59
Unrestricted	223,221.13	124,695.77	20,041.01	367,957.91
Total Net Position	1,741,771.34	274,884.36	20,041.01	2,036,696.71

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2021

	Major Enterprise Funds			Total Enterprise Fund
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Charges	224,497.60			224,497.60
Surcharges	26,545.85			26,545.85
Sewer Charges		67,981.53		67,981.53
Garbage Charges			70,738.90	70,738.90
Total Operating Revenues	251,043.45	67,981.53	70,738.90	389,763.88
<u>Operating Expenses:</u>				
Salaries	47,366.48	29,047.31		76,413.79
Health Insurance	8,603.55	5,823.53		14,427.08
FICA	1,726.50	1,152.25		2,878.75
Electricity	7,146.34	2,397.08		9,543.42
Natural Gas	639.26			639.26
Garbage			71,994.20	71,994.20
Computer Billing	1,289.13	1,295.83	1,292.66	3,877.62
Telephone	765.70	272.80	23.17	1,061.67
Gas and Oil	1,750.33	1,773.00		3,523.33
Water Purchase	120,572.19			120,572.19
Chemical Supplies		5,228.59		5,228.59
Operation, Repairs and Maintenance	69,868.73	21,547.39		91,416.12
Miscellaneous	12,810.83	858.99	246.08	13,915.90
Depreciation	38,977.00	865.00		39,842.00
Total Operating Expenses	311,516.04	70,261.77	73,556.11	455,333.92
Operating Income (Loss)	(60,472.59)	(2,280.24)	(2,817.21)	(65,570.04)
<u>Non-Operating Revenues:</u>				
Interest Income	1,009.71	379.90	0.62	1,390.23
Miscellaneous Revenues	16,744.67	1,171.76	2,448.92	20,365.35
Total Non-Operating Revenues	17,754.38	1,551.66	2,449.54	21,755.58
Income Before Transfers	(42,718.21)	(728.58)	(367.67)	(43,814.46)
Transfers In	53,000.00	3,000.00		56,000.00
Transfers Out		(3,000.00)		(3,000.00)
Changes in Net Position	10,281.79	(728.58)	(367.67)	9,185.54
Net Position - January 1	1,741,771.34	274,884.36	20,041.01	2,036,696.71
Net Position - December 31	1,752,053.13	274,155.78	19,673.34	2,045,882.25

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2020

	Major Enterprise Funds			Total Enterprise Fund
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Charges	210,940.36			210,940.36
Surcharges	26,357.95			26,357.95
Sewer Charges		67,654.91		67,654.91
Garbage Charges			65,985.23	65,985.23
Total Operating Revenues	237,298.31	67,654.91	65,985.23	370,938.45
<u>Operating Expenses:</u>				
Salaries	36,510.31	22,821.00		59,331.31
Health Insurance	13,873.58	8,184.41		22,057.99
FICA	3,103.83	2,013.79		5,117.62
Engineering	6,006.66			6,006.66
Electricity	6,122.41	2,530.74		8,653.15
Natural Gas	563.27			563.27
Garbage			56,875.75	56,875.75
Computer Billing	1,749.21	1,749.26	1,749.44	5,247.91
Telephone	685.61	204.30		889.91
Gas and Oil	1,089.87	1,143.04		2,232.91
Water Purchase	123,648.64			123,648.64
Publishing and Printing	248.27			248.27
Chemical Supplies		7,406.16		7,406.16
Operation, Repairs and Maintenance	27,038.84	4,808.80		31,847.64
Miscellaneous	5,812.80	425.49		6,238.29
Depreciation	38,977.00	865.00		39,842.00
Total Operating Expenses	265,430.30	52,151.99	58,625.19	376,207.48
Operating Income (Loss)	(28,131.99)	15,502.92	7,360.04	(5,269.03)
<u>Non-Operating Revenues:</u>				
Interest Income	1,289.79	472.70	1.38	1,763.87
Miscellaneous Revenues	1,591.49	961.11	2,528.21	5,080.81
Total Non-Operating Revenues	2,881.28	1,433.81	2,529.59	6,844.68
Income Before Transfers	(25,250.71)	16,936.73	9,889.63	1,575.65
Transfers In		3,000.00		3,000.00
Transfers Out		(3,000.00)	(7,300.00)	(10,300.00)
Changes in Net Position	(25,250.71)	16,936.73	2,589.63	(5,724.35)
Net Position - January 1	1,776,347.68	267,476.72	16,120.37	2,059,944.77
Prior Period Adjustment (Note 12)	(9,325.63)	(9,529.09)	1,331.01	(17,523.71)
Net Position - January 1, as Restated	1,767,022.05	257,947.63	17,451.38	2,042,421.06
Net Position - December 31	1,741,771.34	274,884.36	20,041.01	2,036,696.71

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year ended December 31, 2021

	<u>Major Enterprise Funds</u>			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	251,043.45	67,981.53	70,738.90	389,763.88
Payments to suppliers	(214,842.51)	(33,373.68)	(73,556.11)	(321,772.30)
Payments to employees	(57,696.53)	(36,023.09)		(93,719.62)
Net cash provided (used) by operating activities	(21,495.59)	(1,415.24)	(2,817.21)	(25,728.04)
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts	16,744.67	1,171.76	2,448.92	20,365.35
Transfers In	53,000.00	3,000.00		56,000.00
Transfers Out		(3,000.00)		(3,000.00)
Net cash provided by (used in) noncapital financing activities	69,744.67	1,171.76	2,448.92	73,365.35
<u>Cash flows from investing activities:</u>				
Interest income	1,009.71	379.90	0.62	1,390.23
Net increase in cash and cash equivalents	49,258.79	136.42	(367.67)	49,027.54
Cash and cash equivalents, January 1	360,099.34	245,474.36	20,041.01	625,614.71
Cash and cash equivalents, December 31	409,358.13	245,610.78	19,673.34	674,642.25
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:				
Operating income (loss)	(60,472.59)	(2,280.24)	(2,817.21)	(65,570.04)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	38,977.00	865.00	-	39,842.00
Net cash provided (used) by operating activities	(21,495.59)	(1,415.24)	(2,817.21)	(25,728.04)

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year ended December 31, 2020

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	237,298.31	67,654.91	65,985.23	370,938.45
Payments to suppliers	(172,965.58)	(18,267.79)	(58,625.19)	(249,858.56)
Payments to employees	(53,487.72)	(33,019.20)		(86,506.92)
Net cash provided (used) by operating activities	10,845.01	16,367.92	7,360.04	34,572.97
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts	1,591.49	961.11	2,528.21	5,080.81
Transfers In		3,000.00		3,000.00
Transfers Out		(3,000.00)	(7,300.00)	(10,300.00)
Net cash provided by (used in) noncapital financing activities	1,591.49	961.11	(4,771.79)	(2,219.19)
<u>Cash flows from investing activities:</u>				
Interest income	1,289.79	472.70	1.38	1,763.87
Net increase in cash and cash equivalents	13,726.29	17,801.73	2,589.63	34,117.65
Cash and cash equivalents, January 1	355,698.68	237,201.72	16,120.37	609,020.77
Prior period adjustment (Note 12)	(9,325.63)	(9,529.09)	1,331.01	(17,523.71)
Cash and cash equivalents, January 1, as restated	346,373.05	227,672.63	17,451.38	591,497.06
Cash and cash equivalents, December 31	360,099.34	245,474.36	20,041.01	625,614.71
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:				
Operating income (loss)	(28,131.99)	15,502.92	7,360.04	(5,269.03)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	38,977.00	865.00	-	39,842.00
Net cash provided (used) by operating activities	10,845.01	16,367.92	7,360.04	34,572.97

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2021 and 2020

	Custodial Fund	
	2021	2020
<u>Assets:</u>		
Cash and Investments	<u>119,911.93</u>	<u>119,911.13</u>
<u>Liabilities:</u>		
Due to Other Governments	<u>119,911.93</u>	<u>119,911.13</u>

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Statement of Changes in Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2021 and 2020

	Custodial Fund	
	2021	2020
<u>Additions:</u>	-	-
<u>Deductions:</u>	-	-
Net Position - January 1	119,911.93	119,911.13
Net Position - December 31	119,911.93	119,911.13

The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

Notes to the Financial Statements
December 31, 2021 and 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the city.

Based on these criteria, the component units discussed below are included within the city's reporting entity because of the significance of their operational or financial relationship with the city.

Discretely presented component units: The component units' columns in the basic financial statements include the financial data of the city's two component units. These units are reported in separate columns to emphasize that they are legally separate from the city.

Underwood Housing Authority: The Underwood Housing Authority's governing board is appointed by the city's governing board. The housing authority has the authority to issue its own debt.

Underwood Area Economic Development Authority: The Underwood Area Economic Development Authority's governing board is not appointed by the city's governing board. However, the city commission approves the UAEDC's annual budget and thus determines the amount of funding the city will provide to UAEDC from the city's sales tax.

The financial statements of the discretely presented component units are presented in the basic financial statements.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of Underwood and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the

governmental and business-type activities of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the city's funds including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

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

Municipal Highway. This fund accounts for the accumulation of the highway tax distribution to be used for street repairs and maintenance.

Sales Tax. This fund accounts for the accumulation of sales tax to be used for the purpose of community and economic development for the city and on third of collections paid to the Underwood Park District.

Flood Water Special Assessments. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2016.

2016 Street Construction. This fund accounts for the accumulation of resources to be used for the payment of long-term debt and principal. The city transfers a portion of these funds to the Flood Water Special Assessments Fund to help pay the debt service related to the Refunding Improvement Bonds of 2016.

The city reports the following major enterprise funds:

Water. This fund accounts for the activities of the city's water distribution system.

Sewer. This fund accounts for the activities of the city's sewer collection system.

The city reports the following type of fiduciary fund:

Custodial Fund: This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's custodial fund is used to account for various deposits of other governments.

C. 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

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

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Infrastructure	20 to 75 years
Machinery and Vehicles	10 to 20 Years

F. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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

G. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

Assigned – Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

H. Interfund Transactions

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

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

In the government-wide financial statements, interfund transactions have been eliminated.

I. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) 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.

Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the city maintains deposits at the 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.

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

At December 31, 2021 the city's carrying amount of deposits was \$2,922,112 and the bank balance was \$2,875,045. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,625,045 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2020 the city's carrying amount of deposits was \$2,674,711 and the bank balance was \$2,598,329. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,348,329 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The city may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2021, the city held certificates of deposit in the amount of \$1,271,500, which are all considered deposits.

At December 31, 2020, the city held certificates of deposit in the amount of \$1,260,300, which are all considered deposits.

Concentration of Credit Risk

The city does not have a limit on the amount the city may invest in any one issuer.

Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the city of Underwood for the years ended December 31:

<u>December 31, 2021</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	8,669,160			8,669,160
Machinery and Vehicles	312,905	160,850	113,225	360,530
Total	8,982,065	160,850	113,225	9,029,690
Less accumulated depreciation for:				
Buildings and Infrastructure	2,265,852	292,481		2,558,333
Machinery and Vehicles	282,033	11,907	101,901	192,039
Total	2,547,885	304,388	101,901	2,750,372
Governmental Activities Capital Assets, Net	6,434,180	(143,538)	11,324	6,279,318
 <u>December 31, 2020</u>	 <u>Balance January 1</u>	 <u>Increases</u>	 <u>Decreases</u>	 <u>Balance December 31</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	8,669,160			8,669,160
Machinery and Vehicles	312,905			312,905
Total	8,982,065	-	-	8,982,065
Less accumulated depreciation for:				
Buildings and Infrastructure	1,973,371	292,481		2,265,852
Machinery and Vehicles	272,508	9,525		282,033
Total	2,245,879	302,006	-	2,547,885
Governmental Activities Capital Assets, Net	6,736,186	(302,006)	-	6,434,180

<u>December 31, 2021</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Business-type Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	2,033,750			2,033,750
Machinery and Vehicles	26,055			26,055
Total	<u>2,059,805</u>	<u>-</u>	<u>-</u>	<u>2,059,805</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	622,668	39,842		662,510
Machinery and Vehicles	26,055			26,055
Total	<u>648,723</u>	<u>39,842</u>	<u>-</u>	<u>688,565</u>
Business-Type Activities Capital Assets, Net	<u>1,411,082</u>	<u>(39,842)</u>	<u>-</u>	<u>1,371,240</u>

<u>December 31, 2020</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Business-type Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	2,033,750			2,033,750
Machinery and Vehicles	26,055			26,055
Total	<u>2,059,805</u>	<u>-</u>	<u>-</u>	<u>2,059,805</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	582,826	39,842		622,668
Machinery and Vehicles	26,055			26,055
Total	<u>608,881</u>	<u>39,842</u>	<u>-</u>	<u>648,723</u>
Business-Type Activities Capital Assets, Net	<u>1,450,924</u>	<u>(39,842)</u>	<u>-</u>	<u>1,411,082</u>

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

<u>Governmental Activities:</u>	<u>2021</u>	<u>2020</u>
General Government	5,667	5,667
Public Safety	300	300
Streets and Public Works	285,681	283,299
Culture and Recreation	12,740	12,740
Total	<u>304,388</u>	<u>302,006</u>
<u>Business-type Activities:</u>		
Water	38,977	38,977
Sewer	865	865
Total	<u>39,842</u>	<u>39,842</u>

Discretely Presented Component Unit:

The following is a schedule of changes in the capital assets for the discretely presented component unit for the years ended December 31:

<u>December 31, 2021</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets being depreciated:				
Buildings and Infrastructure	<u>500,000</u>			<u>500,000</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	<u>108,329</u>	<u>8,333</u>		<u>116,662</u>
Capital Assets, Net	<u>391,671</u>	<u>(8,333)</u>	<u>-</u>	<u>383,338</u>
 <u>December 31, 2020</u>	 <u>Balance January 1</u>	 <u>Increases</u>	 <u>Decreases</u>	 <u>Balance December 31</u>
Capital assets being depreciated:				
Buildings and Infrastructure	<u>500,000</u>			<u>500,000</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	<u>99,996</u>	<u>8,333</u>		<u>108,329</u>
Capital Assets, Net	<u>400,004</u>	<u>(8,333)</u>	<u>-</u>	<u>391,671</u>

Depreciation expense was charged to functions/programs of the Housing Authority as follows for the years ended December 31:

<u>Discretely Presented Component Unit:</u>	<u>2021</u>	<u>2020</u>
Housing Authority	<u>8,333</u>	<u>8,333</u>

Note 5 CAPITAL LEASE PAYABLE

The city has entered into the following lease agreement:

\$120,850 lease-purchase of a John Deere 544K Wheel Loader due in annual installments of \$26,436.09 through June 21, 2026; payments include interest at 3.02%	<u>120,850.00</u>
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This lease agreement qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term). The following is a schedule of the future minimum lease payments under this capital lease, and the net present value of the minimum lease payments at December 31, 2021:

<u>Year Ending December 31</u>	<u>Principal</u>
2022	26,436.09
2023	26,436.09
2024	26,436.09
2025	26,436.09
2026	26,436.09
Total minimum lease payments	132,180.45
Less: amount representing interest	(11,330.45)
Present value of future minimum lease payments	<u>120,850.00</u>

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2021 and 2020, the following changes occurred in liabilities reported in the long-term liabilities – Governmental Activities:

	<u>Balance January 1</u>	<u>Increases</u>	<u>2021 Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Capital Lease Payable		120,850		120,850	22,736
General Obligation Bonds	115,000		15,000	100,000	20,000
Special Assessment Bonds	4,005,000		395,000	3,610,000	385,000
Total	<u>4,120,000</u>	<u>120,850</u>	<u>410,000</u>	<u>3,830,850</u>	<u>427,736</u>
			<u>2020</u>		
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
General Obligation Bonds	130,000		15,000	115,000	15,000
Special Assessment Bonds	4,400,000		395,000	4,005,000	395,000
Total	<u>4,530,000</u>	<u>-</u>	<u>410,000</u>	<u>4,120,000</u>	<u>410,000</u>

Outstanding debt at December 31, 2021 consists of the following:

Governmental Activities

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2021 is as follows:

General Obligation Bonds. The city has issued general obligation bonds to provide funds for the construction/renovation of the city's swimming pool. General obligation bonds outstanding at December 31, 2021 are as follows:

\$280,000 General Obligation Swimming Pool Bonds of 2007 due in annual installments of \$15,000 to \$20,000 through May 1, 2026; interest is at 4.25%.

100,000.00

The annual requirements to amortize the outstanding general obligation bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	20,000.00	3,825.00
2023	20,000.00	2,975.00
2024	20,000.00	2,125.00
2025	20,000.00	1,275.00
2026	20,000.00	425.00
Total	<u>100,000.00</u>	<u>10,625.00</u>

Special Assessment Debt. The city has issued special assessment bonds to provide funds for various improvement projects. Special assessment bonds outstanding at December 31, 2021 are as follows:

\$515,000 Refunding Improvement Bonds of 2016, due in annual installments of \$40,000 to \$70,000 through May 1, 2022; interest is at 1.1% to 2.05%.

40,000.00

\$5,100,000 Refunding Improvement Bonds of 2016, due in annual installments of \$150,000 to \$345,000 through May 1, 2032; interest is at 1.1% to 3%.

3,570,000.00

Total

3,610,000.00

The annual requirements to amortize the outstanding special assessment bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	385,000.00	84,957.50
2023	345,000.00	78,251.25
2024	345,000.00	72,300.00
2025	345,000.00	65,917.50
2026	340,000.00	59,070.00
2027-2031	1,700,000.00	150,000.00
2032	150,000.00	2,250.00
Total	<u>3,610,000.00</u>	<u>512,746.25</u>

Discretely Presented Component Unit Debt

Changes in Long-Term Liabilities. During the years ended December 31, 2021 and 2020, the following changes occurred in the long-term liabilities – Component Unit:

	Balance January 1	Increases	2021	Balance December 31	Due Within One Year
			Decreases		
Revenue Bonds Payable	<u>400,180</u>		<u>10,511</u>	<u>389,669</u>	<u>11,049</u>

	Balance January 1	Increases	2020	Balance December 31	Due Within One Year
			Decreases		
Revenue Bonds Payable	<u>410,179</u>		<u>9,999</u>	<u>400,180</u>	<u>10,511</u>

Revenue Bond Debt. The Underwood Housing Authority has issued revenue bonds to provide funds for community housing. Revenue bonds outstanding at December 31, 2021 are as follows:

\$500,000 Multifamily Housing Revenue Bonds of 2016, due in monthly installments of \$2,523.44 through August 1, 2042; interest is at 5%.

389,668.89

The annual requirements to amortize the outstanding revenue bonds payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	11,048.76	19,232.52
2023	11,614.03	18,667.25
2024	12,208.23	18,073.05
2025	12,832.82	17,448.46
2026	13,489.37	16,791.91
2027-2031	78,532.84	72,873.56
2032-2036	100,785.81	50,620.59
2037-2041	129,344.33	22,062.07
2042	<u>19,812.70</u>	<u>374.81</u>
Total	<u>389,668.89</u>	<u>236,144.22</u>

Note 7 TRANSFERS

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

Fund

<u>December 31, 2021</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Water Operating	53,000.00	
Coal Severance		53,000.00
To subsidize expenditures.		

Flood Water Special Assessments	319,600.76	
City Sales Tax		100,000.00
2016 Street Construction		219,600.76
2014 Refunding Bonds	35,509.13	
#12-2016 Special Assessments		2,842.37
Westridge Estates		32,666.76
To subsidize debt service payments.		
Wastewater Replacement	3,000.00	
Sewer Operating		3,000.00
To set-aside funds for project reserves.		
2016 Street Construction	20,000.00	
Sales Tax		20,000.00
To set-aside funds for street projects.		
Equipment Reserve	27,000.00	
Coal Severance		27,000.00
To set-aside funds for the purchase of equipment.		
<u>December 31, 2020</u>		
General	37,000.00	
Municipal Highway	7,300.00	
Coal Severance		37,000.00
Garbage		7,300.00
To subsidize expenditures.		
Flood Water Special Assessments	322,731.72	
Sales Tax		100,000.00
2016 Street Construction		222,731.72
2014 Refunding Bonds	71,986.72	
#12-2016 Special Assessments		2,313.65
Westridge Estates		26,673.07
Coal Severance		43,000.00
To subsidize debt service payments.		
Wastewater Replacement	3,000.00	
Sewer Operating		3,000.00
To set-aside funds for project reserves.		
2016 Street Construction	20,000.00	
Sales Tax		20,000.00
To set-aside funds for the purchase of equipment.		

Note 8 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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, automobile and public assets insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$452,880 for public assets.

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 \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$1,008,393 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of 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 fiscal years.

Note 9 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The city provides benefits for all of its full-time employees through the North Dakota Public Employees Retirement System (NDPERS).

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54 – 52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the NDPERS plan is financed through the contributions and investment earnings of the plan.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55 – 64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation. During the year ended December 31, 2021 and 2020, the city contributed \$8,396.23 and \$8,088.30, respectively.

Note 11 TAX ABATEMENTS

The city has not entered into any tax abatement agreements that would reduce the city's tax revenues for the years ended December 31, 2021 and 2020.

Note 12 PRIOR PERIOD ADJUSTMENTS

A prior adjustment was made to eliminate accruals for GASB No. 68 and restate the financial statements to the pure modified cash basis of accounting and to correct ending cash balances at December 31, 2019.

	Governmental Activities
Net Position as previously reported	4,066,426.07
Adjustments to restate the January 1, 2020 balance:	
Cash	(79,957.29)
Deferred Outflows of Resources - Related to Pensions	(55,762.00)
Net Pension Liability	132,579.00
Deferred Inflows of Resources - Related to Pensions	13,824.00
Net Position, January 1, 2020 as restated	4,077,109.78
	Business-Type Activities
Net Position as previously reported	2,059,944.77
Adjustments to restate the January 1, 2020 balance:	
Cash	(17,523.71)
Net Position, January 1, 2020 as restated	2,042,421.06

	Discretely Presented Component Unit
Net Position as previously reported	23,083.54
Adjustments to restate the January 1, 2020 balance:	
Cash	1,179.71
Net Position, January 1, 2020 as restated	24,263.25
	Governmental Funds
Cash and Cash Equivalents as previously reported	1,950,881.07
Adjustments to restate the January 1, 2020 balance:	
Cash and Cash Equivalents	(79,957.29)
Net Position, January 1, 2020 as restated	1,870,923.78
	Enterprise Funds
Cash and Cash Equivalents as previously reported	609,020.77
Adjustments to restate the January 1, 2020 balance:	
Cash and Cash Equivalents	(17,523.71)
Net Position, January 1, 2020 as restated	591,497.06

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	150,700.00	156,163.69	5,463.69
Licenses, Permits and Fees	4,546.00	5,025.00	479.00
Intergovernmental	190,850.00	217,278.95	26,428.95
Charges for Services	4,500.00	4,251.77	(248.23)
Fines and Forfeits	9,000.00	6,229.00	(2,771.00)
Miscellaneous	7,650.00	47,376.65	39,726.65
Total Revenues	367,246.00	436,325.06	69,079.06
<u>Expenditures:</u>			
Current:			
General Government	145,383.00	161,943.39	(16,560.39)
Public Safety	86,000.00	85,969.80	30.20
Streets and Public Works	81,500.00	60,033.87	21,466.13
Health and Welfare	5,300.00	3,579.00	1,721.00
Culture and Recreation	11,000.00	2,332.67	8,667.33
Other	33,000.00	28,242.78	4,757.22
Total Expenditures	362,183.00	342,101.51	20,081.49
Excess (Deficiency) of Revenues over Expenditures	5,063.00	94,223.55	89,160.55
<u>Other Financing (Uses):</u>			
Transfers Out		(80,000.00)	(80,000.00)
Net Change in Fund Balances	5,063.00	14,223.55	9,160.55
Fund Balance - January 1	626,820.29	626,820.29	
Fund Balance - December 31	631,883.29	641,043.84	9,160.55

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	130,130.00	123,769.69	(6,360.31)
Licenses, Permits and Fees	4,546.00	4,849.00	303.00
Intergovernmental	218,400.00	240,022.11	21,622.11
Charges for Services	5,000.00	4,788.59	(211.41)
Fines and Forfeits	9,000.00	6,654.00	(2,346.00)
Miscellaneous	8,000.00	25,342.19	17,342.19
Total Revenues	375,076.00	405,425.58	30,349.58
<u>Expenditures:</u>			
Current:			
General Government	150,900.00	145,487.71	5,412.29
Public Safety	82,823.00	82,822.68	0.32
Streets and Public Works	79,817.00	82,773.13	(2,956.13)
Health and Welfare	5,300.00	1,522.24	3,777.76
Culture and Recreation	10,500.00	5,397.67	5,102.33
Other	34,000.00	31,947.21	2,052.79
Total Expenditures	363,340.00	349,950.64	13,389.36
Excess (Deficiency) of Revenues over Expenditures	11,736.00	55,474.94	43,738.94
<u>Other Financing Sources (Uses):</u>			
Transfers In		37,000.00	37,000.00
Transfers Out		(80,000.00)	(80,000.00)
Total Other Financing Sources (Uses)	-	(43,000.00)	(43,000.00)
Net Change in Fund Balances	11,736.00	12,474.94	738.94
Fund Balance - January 1	655,888.18	655,888.18	
Prior Period Adjustment (Note 12)		(41,542.83)	(41,542.83)
Fund Balance - January 1, as Restated	655,888.18	614,345.35	(41,542.83)
Fund Balance - December 31	667,624.18	626,820.29	(40,803.89)

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Municipal Highway Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Intergovernmental	66,300.00	62,844.23	(3,455.77)
Miscellaneous	300.00	1,523.39	1,223.39
Total Revenues	66,600.00	64,367.62	(2,232.38)
<u>Expenditures:</u>			
Current:			
Streets and Public Works	92,300.00	39,105.32	53,194.68
Net Change in Fund Balances	(25,700.00)	25,262.30	50,962.30
Fund Balance - January 1	264,087.17	264,087.17	
Fund Balance - December 31	238,387.17	289,349.47	50,962.30

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Municipal Highway Fund
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Intergovernmental	66,500.00	61,068.59	(5,431.41)
Miscellaneous	300.00	1,525.85	1,225.85
Total Revenues	66,800.00	62,594.44	(4,205.56)
<u>Expenditures:</u>			
Current:			
Streets and Public Works	108,700.00	71,080.97	37,619.03
Excess (Deficiency) of Revenues over Expenditures	(41,900.00)	(8,486.53)	(41,824.59)
<u>Other Financing Sources:</u>			
Transfers In		7,300.00	
Net Change in Fund Balances	(41,900.00)	(1,186.53)	(41,824.59)
Fund Balance - January 1	256,425.54	256,425.54	
Prior Period Adjustment (Note 12)		8,848.16	8,848.16
Fund Balance - January 1, as Restated	256,425.54	265,273.70	8,848.16
Fund Balance - December 31	214,525.54	264,087.17	49,561.63

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales Tax Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	250,000.00	231,012.10	(18,987.90)
Miscellaneous	250.00	542.73	292.73
Total Revenues	250,250.00	231,554.83	(18,695.17)
<u>Expenditures:</u>			
Current:			
General Government	130,000.00	1,300.00	128,700.00
Culture and Recreation	62,500.00	34,107.52	28,392.48
Total Expenditures	192,500.00	35,407.52	157,092.48
Excess (Deficiency) of Revenues Over Expenditures	57,750.00	196,147.31	138,397.31
<u>Other Financing (Uses):</u>			
Transfers Out		(120,000.00)	(120,000.00)
Net Change in Fund Balances	57,750.00	76,147.31	18,397.31
Fund Balance - January 1	403,990.78	403,990.78	
Fund Balance - December 31	461,740.78	480,138.09	18,397.31

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales Tax Fund
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	250,000.00	252,622.94	2,622.94
Miscellaneous	250.00	792.64	542.64
Total Revenues	250,250.00	253,415.58	3,165.58
<u>Expenditures:</u>			
Current:			
General Government	130,000.00	12,250.00	117,750.00
Culture and Recreation	62,500.00	63,155.68	(655.68)
Total Expenditures	192,500.00	75,405.68	117,094.32
Excess (Deficiency) of Revenues Over Expenditures	57,750.00	178,009.90	120,259.90
<u>Other Financing (Uses):</u>			
Transfers Out		(120,000.00)	(120,000.00)
Net Change in Fund Balances	57,750.00	58,009.90	259.90
Fund Balance - January 1	421,854.45	421,854.45	
Prior Period Adjustment (Note 12)		(75,873.57)	(75,873.57)
Fund Balance - January 1, as Restated	421,854.45	345,980.88	(75,873.57)
Fund Balance - December 31	479,604.45	403,990.78	(75,613.67)

CITY OF UNDERWOOD
Underwood, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2021 and 2020

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general and special revenue funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board did not amend the city's budgets during the years ended December 31, 2021 and 2020.

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2021

	Balance 1-1-2021	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2021
Major Governmental Funds						
<u>General Fund</u>						
General	296,638.59	349,449.00			342,101.51	303,986.08
Coal Severance	330,181.70	86,876.06		80,000.00		337,057.76
Total General Fund	626,820.29	436,325.06		80,000.00	342,101.51	641,043.84
Municipal Highway	264,087.17	63,882.32			38,620.02	289,349.47
Sales Tax	403,990.78	231,554.83		120,000.00	35,407.52	480,138.09
Flood Water Special Assessments		117,866.74	319,600.76		437,467.50	
2016 Street Construction	394,835.59	203,193.61	20,000.00	219,600.76		398,428.44
Total Major Governmental Funds	1,689,733.83	1,052,822.56	339,600.76	419,600.76	853,596.55	1,808,959.84
<u>Non-major Governmental Funds</u>						
Cemetery	9,859.79	1,108.43			3,101.24	7,866.98
Library	22,488.08	13,828.52			11,838.85	24,477.75
Recreation	2,401.78	5,496.31			1,609.55	6,288.54
Public Health	22,031.56	98.12			1,890.00	20,239.68
Public Buildings	32,290.23	163.17				32,453.40
Emergency	24,147.92	5,431.35				29,579.27
Generator	24,910.91	0.63				24,911.54
Equipment Replacement	50,015.00	1.55	27,000.00			77,016.55
American Rescue Plan		57,700.59				57,700.59
Industrial Park	15,187.14	3,600.63				18,787.77
#12-2006 Special Assessments		2,842.37		2,842.37		
Westridge Estates		32,666.76		32,666.76		
Swimming Pool	12,251.83	20,589.52			20,588.75	12,252.60
2014 Refunding Bonds	23,867.18	0.39	35,509.13		52,352.50	7,024.20
Total Nonmajor Governmental Funds	239,451.42	143,528.34	62,509.13	35,509.13	91,380.89	318,598.87
Total Governmental Funds	1,929,185.25	1,196,350.90	402,109.89	455,109.89	944,977.44	2,127,558.71
<u>Major Enterprise Funds</u>						
<u>Water</u>						
Operating	223,221.13	242,247.68	53,000.00		272,527.50	245,941.31
Water Pipeline Maintenance and Repair	15,112.81	0.63				15,113.44
Water Main Replacement	46,866.57	9,956.28			4.40	56,818.45
Water Meter Replacement	74,898.83	16,593.24			7.14	91,484.93
<u>Sewer</u>						
Operating	124,695.77	69,084.79		3,000.00	69,396.77	121,383.79
Wastewater Replacement	120,778.59	448.40	3,000.00			124,226.99
Total Major Enterprise Funds	605,573.70	338,331.02	56,000.00	3000	341,935.81	654,968.91
<u>Non-major Enterprise Funds</u>						
Garbage	20,041.01	73,188.44			73,556.11	19,673.34
Total Enterprise Funds	625,614.71	411,519.46	56,000.00	3,000.00	415,491.92	674,642.25

(continued)

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2021
(continued)

	Balance 1-1-2021	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2021
<u>Fiduciary Fund</u>						
<u>Custodial Fund</u>						
USDA Revolving Loan Fund	119,911.13					119,911.13
Total Primary Government	2,674,711.09	1,607,870.36	458,109.89	458,109.89	1,360,469.36	2,922,112.09
<u>Discretely Presented Component Unit</u>						
Underwood Housing Authority	37,355.04	38,498.69			36,289.57	39,564.16
Underwood Area Economic Development Corporation	17,483.68	1,565.70			5,039.70	14,009.68
Total Discretely Presented Component Units	54,838.72	40,064.39	-	-	41,329.27	53,573.84
Total All Funds	2,729,549.81	1,647,934.75	458,109.89	458,109.89	1,401,798.63	2,975,685.93

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2020

	Balance 1-1-2020	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2020
<u>Major Governmental Funds</u>						
<u>General Fund</u>						
General	286,970.45	322,618.78	37,000.00		349,950.64	296,638.59
Coal Severance	327,374.90	82,806.80		80,000.00		330,181.70
Total General Fund	614,345.35	405,425.58	37,000.00	80,000.00	349,950.64	626,820.29
Municipal Highway	265,273.70	62,594.44	7,300.00		71,080.97	264,087.17
Sales Tax	345,980.88	253,415.58		120,000.00	75,405.68	403,990.78
Flood Water Special Assessments	10,393.97	111,316.81	322,731.72		444,442.50	-
2016 Street Construction	410,540.95	187,026.36	20,000.00	222,731.72		394,835.59
Total Major Governmental Funds	1,646,534.85	1,019,778.77	387,031.72	422,731.72	940,879.79	1,689,733.83
<u>Non-major Governmental Funds</u>						
Cemetery	12,893.14	778.16			3,811.51	9,859.79
Library	19,266.09	14,600.66			11,378.67	22,488.08
Recreation	3,371.76	6,598.91			7,568.89	2,401.78
Public Health	21,932.87	98.69				22,031.56
Public Buildings	40,875.25	229.98			8,815.00	32,290.23
Emergency	19,142.80	5,005.12				24,147.92
Generator	24,909.53	1.38				24,910.91
Equipment Replacement	50,011.17	3.83				50,015.00
Industrial Park	14,403.38	3,601.26			2,817.50	15,187.14
#12-2006 Special Assessments		2,313.65		2,313.65		
Westridge Estates		26,673.07		26,673.07		
Swimming Pool	12,250.55	21,302.53			21,301.25	12,251.83
2014 Refunding Bonds	5,332.39	0.57	71,986.72		53,452.50	23,867.18
Total Nonmajor Governmental Funds	224,388.93	81,207.81	71,986.72	28,986.72	109,145.32	239,451.42
Total Governmental Funds	1,870,923.78	1,100,986.58	459,018.44	451,718.44	1,050,025.11	1,929,185.25
<u>Major Enterprise Funds</u>						
<u>Water</u>						
Operating	235,866.19	213,808.24			226,453.30	223,221.13
Water Pipeline Maintenance and Repair	15,111.52	1.29				15,112.81
Water Main Replacement	36,966.04	9,900.53				46,866.57
Water Meter Replacement	58,429.30	16,469.53				74,898.83
<u>Sewer</u>						
Operating	110,519.96	68,462.80		3,000.00	51,286.99	124,695.77
Wastewater Replacement	117,152.67	625.92	3,000.00			120,778.59
Total Major Enterprise Funds	574,045.68	309,268.31	3,000.00	3,000.00	277,740.29	605,573.70
<u>Non-major Enterprise Funds</u>						
Garbage	17,451.38	68,514.82		7,300.00	58,625.19	20,041.01
Total Enterprise Funds	591,497.06	377,783.13	3,000.00	10,300.00	336,365.48	625,614.71

(continued)

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2020
(continued)

	Balance		Transfers	Transfers		Balance
	1-1-2020	Receipts	In	Out	Disbursements	12-31-2020
<u>Fiduciary Fund</u>						
<u>Custodial Fund</u>						
USDA Revolving Loan Fund	119,911.13					119,911.13
Total Primary Government	2,582,331.97	1,478,769.71	462,018.44	462,018.44	1,386,390.59	2,674,711.09
<u>Discretely Presented Component Unit</u>						
Underwood Housing Authority	34,438.53	38,578.43			35,661.92	37,355.04
Underwood Area Economic Development Corporation	9,514.47	12,323.19			4,353.98	17,483.68
Total Discretely Presented Component Units	43,953.00	50,901.62	-	-	40,015.90	54,838.72
Total All Funds	2,626,284.97	1,529,671.33	462,018.44	462,018.44	1,426,406.49	2,729,549.81

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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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Underwood
Underwood, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Underwood, as of and for the year ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated July 22, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the city's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the city'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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Report on 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the city's response to the findings identified in our audit and described in the accompanying *Schedule of Findings and Responses*. The city's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. 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 city's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

July 22, 2022

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2021 and 2020

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Discretely Presented Component Units	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2021-001 – Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Condition: The city has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

Cause: The city does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The city is aware of the condition and segregates duties whenever possible.

2. 2020-002- Financial Statement Preparation

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The city's financial statements, including the accompanying note disclosures, are prepared by the city's external auditors.

Cause: The city feels that it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and review and approve them prior to external distribution.

Views of Responsible officials: The city will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.