

**CITY OF BEACH
BEACH, NORTH DAKOTA**

AUDIT REPORT

**EXAMINATION FOR THE FISCAL
YEAR ENDED DECEMBER 31, 2017**

**JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANT
BEACH, NORTH DAKOTA**

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BEACH, NORTH DAKOTA
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INDEPENDENT AUDITOR'S REPORT

To the City Council
Beach, North Dakota 58621

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beach, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beach, North Dakota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (omitted) and Budgetary Comparison information on pages 31 - 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Beach's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements on pages 35 – 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

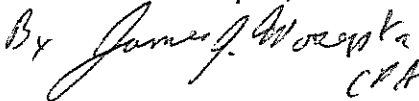
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

The accompanying other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018 on our consideration of the City of Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Beach's internal control over financial reporting and compliance.

Beach, North Dakota
June 25, 2018

James J. Wosepka, PC
By  CMAA

CITY OF BEACH
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,110,351	\$ 423,890	\$ 1,534,241
Restricted Assets:			
Cash and cash equivalents	-	1,671	1,671
Taxes/assessments receivable	5,047	28,738	33,785
Accounts/other receivables	-	50,730	50,730
Due from other governments	5,869	-	5,869
Prepaid expense	4,274	6,831	11,105
Inventories	-	5,000	5,000
Capital assets not being depreciated			
Land	161,168	221,217	382,385
Capital assets being depreciated (net of accumulated depreciation)	2,932,449	3,254,351	6,186,800
Total Assets	\$ 4,219,158	\$ 3,992,428	\$ 8,211,586
DEFERRED OUTFLOWS OF RESOURCES			
	\$ (11,519)	\$ -	\$ (11,519)
LIABILITIES			
Accounts payable	\$ 3,933	\$ 75,940	\$ 79,873
Deposits payable	-	1,671	1,671
Accrued interest	6,781	-	6,781
Noncurrent liabilities:			
Due within one year	3,786	5,103	8,889
Due in more than one year	1,501,284	6,079	1,507,363
Total Liabilities	\$ 1,515,784	\$ 88,793	\$ 1,604,577
DEFERRED INFLOWS OF RESOURCES			
	\$ 100,015	\$ -	100,015
NET POSITION			
Net investment in capital assets	\$ 1,601,925	\$ 3,475,568	\$ 5,077,493
Restricted for:			
Other Governmental Activities	293,776	-	293,776
Unrestricted	719,177	428,067	1,147,244
Total Net Position	\$ 2,614,878	\$ 3,903,635	\$ 6,518,513

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for		Governmental Activities	Primary Government		Total
		Services, Fines, Forfeitures, etc.	Capital Grants and Contributions		Business-type Activities		
Governmental activities:							
General government	\$ 241,059	\$ -	\$ -	\$ (241,059)	\$ -	\$ -	(241,059)
Public safety	139,934	70	-	(139,864)	-	-	(139,864)
Public works	311,625	-	-	(311,625)	-	-	(311,625)
Public health	2,085	-	-	(2,085)	-	-	(2,085)
Culture and recreation	90,324	-	-	(90,324)	-	-	(90,324)
Community development	3,590	-	-	(3,590)	-	-	(3,590)
Interest on long-term debt	6,781	-	-	(6,781)	-	-	(6,781)
Miscellaneous	8,276	-	-	(8,276)	-	-	(8,276)
Total governmental activities	803,674	70	-	(803,604)	-	-	(803,604)
Business-type activities:							
Water	323,185	335,347	-	-	12,162	12,162	12,162
Sewer	88,641	59,535	-	-	(29,106)	(29,106)	(29,106)
Conference Center	5,173	2,500	-	-	(2,673)	(2,673)	(2,673)
Solid Waste/Landfill	172,771	161,802	-	-	(10,969)	(10,969)	(10,969)
Mini Mall	37,190	16,920	-	-	(20,270)	(20,270)	(20,270)
Total business-type activities	626,960	576,104	-	-	(50,856)	(50,856)	(50,856)
Total primary government	\$ 1,430,634	\$ 576,174	\$ -	(803,604)	(50,856)	(854,460)	(854,460)
General revenues:							
Property taxes				99,880	-	-	99,880
Special assessments				-	1,290	1,290	1,290
Sales tax				136,037	-	-	136,037
Licenses and permits				13,581	-	-	13,581
Unrestricted Federal/State shared revenues				415,406	-	-	415,406
Unrestricted investment earnings				1,086	-	-	1,086
Miscellaneous				8,760	5,698	5,698	14,458
Total general revenues				674,750	6,988	6,988	681,738
Change in net position				(128,854)	(43,868)	(172,722)	(172,722)
Total net position - January 1, 2017 - as previously reported				2,764,340	4,003,484	6,767,824	6,767,824
Prior period adjustments				(20,608)	(55,981)	(76,589)	(76,589)
Total net position - January 1, 2017 - as restated				2,743,732	3,947,503	6,691,235	6,691,235
Total net position - December 31, 2017				\$ 2,614,878	\$ 3,903,635	\$ 6,518,513	\$ 6,518,513

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

Description	Major Funds				Total Governmental Funds
	General	Street Improvement 2016-2	Street Improvement 2017-1	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 455,129	\$ -	\$ -	\$ 643,970	\$ 1,099,099
Restricted Assets:					
Cash and cash equivalents	-	-	-	11,252	11,252
Tax/assessment receivable	4,861	-	-	186	5,047
Due from other funds	-	-	-	-	-
Due from other governments	5,839	-	-	30	5,869
Prepaid expense	4,274	-	-	-	4,274
Total Assets	\$ 470,103	\$ -	\$ -	\$ 655,438	\$ 1,125,541
LIABILITIES					
Accounts payable	3,933	-	-	-	3,933
Accrued interest	-	6,781	-	-	6,781
Total Liabilities	\$ 3,933	\$ 6,781	\$ -	\$ -	\$ 10,714
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	\$ 4,861	\$ -	\$ -	\$ 186	\$ 5,047
FUND BALANCES					
Non-spendable	\$ 4,274	\$ -	\$ -	\$ -	\$ 4,274
Restricted	-	-	-	291,236	291,236
Committed	-	(6,781)	-	242,680	235,899
Assigned	-	-	-	121,336	121,336
Unassigned	457,035	-	-	-	457,035
Total Fund Balances	461,309	(6,781)	-	655,252	1,109,780
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 470,103	\$ -	\$ -	\$ 655,438	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,093,617
Certain property tax collections are not available to pay current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	(94,968)
Long-term liabilities, including bonds payable and pensions, are not due and payable in the current period and therefore are not reported in the funds.	(1,493,551)
Net position of governmental activities	\$ 2,614,878

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2017

Description	Major Funds				Total Governmental Funds
	General	Street Improvement 2016-2	Street Improvement 2017-1	Other Governmental Funds	
REVENUES					
Taxes/assessments	\$ 94,837	\$ -	\$ -	\$ 3,942	\$ 98,779
Licenses and permits	13,581	-	-	-	13,581
Intergovernmental revenues	332,991	-	-	218,452	551,443
Fines and forfeitures	70	-	-	-	70
Miscellaneous	8,760	-	-	-	8,760
Investment and royalty earnings	918	-	-	168	1,086
Total Revenues	451,157	-	-	222,562	673,719
EXPENDITURES					
Current:					
General government	133,552	-	-	-	133,552
Public safety	128,034	-	-	-	128,034
Public works	122,690	-	-	142,180	264,870
Public health	2,085	-	-	-	2,085
Culture and recreation	3,234	-	-	29,997	33,231
Community development	-	-	-	3,590	3,590
Debt Service:					
Principal	-	-	-	-	-
Interest	-	6,781	-	-	6,781
Capital outlay	-	-	1,296,256	-	1,296,256
Miscellaneous	8,276	-	-	-	8,276
Total Expenditures	397,871	6,781	1,296,256	175,767	1,876,675
Excess of revenues over (under) expenditures	53,286	(6,781)	(1,296,256)	46,795	(1,202,956)
OTHER FINANCING SOURCES (USES):					
Loan proceeds	-	-	1,296,256	-	1,296,256
Transfers in	-	-	-	1,696	1,696
Transfers out	(1,696)	-	-	-	(1,696)
Total other financing sources (uses)	(1,696)	-	1,296,256	1,696	1,296,256
Net change in fund balances	51,590	(6,781)	-	48,491	93,300
Fund balances - January 1, 2017 - as previously reported	404,473	-	-	632,615	1,037,088
Prior period adjustments	5,246	-	-	(25,854)	(20,608)
Fund balances - January 1, 2017 - as restated	409,719	-	-	606,761	1,016,480
Fund balances - December 31, 2017	\$ 461,309	\$ (6,781)	\$ -	\$ 655,252	\$ 1,109,780

The notes to the financial statements are an integral part of this statement.

**CITY OF BEACH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds (page 9)	\$ 93,300
Amounts reported for governmental activities in the statement of activities (page 7) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	1,322,256
Depreciation expense	<u>(152,399)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	<u>1,101</u>
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position:	
Loan proceeds	<u>(1,296,256)</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Net change in pensions	<u>(94,917)</u>
Accrued compensated absences	<u>(1,939)</u>
Change in Net Position in Governmental Activities	<u>\$ (128,854)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

Description	Business-type Activities					Totals
	Major Enterprise Funds				Non-Major Enterprise Funds	
	Water	Garbage	Sewer	Sewer & Water Reserve		
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 147,664	\$ 199,203	\$ 9,813	\$ 25,850	\$ 41,360	\$ 423,890
Tax/assessment receivable	14,369	-	14,369	-	-	28,738
Accounts/other receivables	29,132	15,640	5,958	-	-	50,730
Prepaid expenses	3,770	3,061	-	-	-	6,831
Inventories	5,000	-	-	-	-	5,000
Total Current Assets	199,935	217,904	30,140	25,850	41,360	515,189
Noncurrent Assets						
Restricted Assets:						
Cash and cash equivalents	1,671	-	-	-	-	1,671
Capital assets:						
Land	-	4,910	216,307	-	-	221,217
Buildings	161,035	106,830	25,000	-	561,955	854,820
Machinery and equipment	15,000	216,958	5,500	-	-	237,458
Infrastructure (utility systems)	495,799	-	2,492,898	-	-	2,988,697
Less: accumulated depreciation	(368,507)	(173,235)	(123,660)	-	(161,222)	(826,624)
Capital assets - net of accumulated depreciation	303,327	155,463	2,616,045	-	400,733	3,475,568
Total Noncurrent Assets	304,998	155,463	2,616,045	-	400,733	3,477,239
Total Assets	\$ 504,933	\$ 373,367	\$ 2,646,185	\$ 25,850	\$ 442,093	\$ 3,992,428
LIABILITIES						
Current Liabilities						
Accounts payable	\$ 757	\$ 105.0	\$ 49,981	\$ 25,000	\$ 97	\$ 75,940
Deposits payable	1,671	-	-	-	-	1,671
Total Current Liabilities	2,428	105	49,981	25,000	97	77,611
Noncurrent Liabilities						
Compensated absences	4,668	4,674	1,840	-	-	11,182
Total Noncurrent Liabilities	4,668	4,674	1,840	-	-	11,182
Total Liabilities	7,096	4,779	51,821	25,000	97	88,793
NET POSITION						
Net investment in capital assets	303,327	155,463	2,616,045	-	400,733	3,475,568
Non-spendable	1,671	-	-	-	-	1,671
Unrestricted	192,839	213,125	(21,681)	850	41,263	426,396
Total Net Position	\$ 497,837	\$ 368,588	\$ 2,594,364	\$ 850	\$ 441,996	\$ 3,903,635

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2017

Description	Business-type Activities						Totals
	Major Enterprise Funds				Sewer & Water Reserve	Non-Major Enterprise Funds	
	Water	Garbage	Sewer				
OPERATING REVENUES							
Charges for services	\$ 335,347	\$ 161,802	\$ 59,535	\$ -	\$ -	\$ -	\$ 556,684
Miscellaneous revenue	-	5,698	-	-	-	19,420	25,118
Special assessments	381	-	909	-	-	-	1,290
Total Operating Revenues	335,728	167,500	60,444	-	-	19,420	583,092
OPERATING EXPENSES							
Personal services	71,087	88,686	29,055	-	-	-	188,808
Supplies	20,899	13,473	14,445	-	-	2,908	51,725
Purchased services	206,297	40,771	3,462	-	-	8,000	258,530
Repairs	15,702	11,256	222	-	-	17,406	44,586
Depreciation	9,200	18,605	41,457	-	-	14,049	83,311
Total Operating Expenses	323,185	172,771	88,641	-	-	42,363	626,960
Operating Income (Loss)	12,543	(5,271)	(28,197)	-	-	(22,943)	(43,868)
NONOPERATING REVENUES (EXPENSES)							
Intergovernmental revenues	-	-	-	-	-	-	-
Gain(loss) on sale of capital assets	-	-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	-	-	-	-	-	-	-
Income (Loss) before contributions and transfers	12,543	(5,271)	(28,197)	-	-	(22,943)	(43,868)
Transfers in (out)	-	-	-	-	-	-	-
Change in net position	12,543	(5,271)	(28,197)	-	-	(22,943)	(43,868)
Total net position - January 1, 2017 - as previously reported	488,887	373,859	2,675,799	-	-	464,939	4,003,484
Prior period adjustments	(3,593)	-	(53,238)	850	-	-	(55,981)
Total net position - January 1, 2017 - as restated	485,294	373,859	2,622,561	850	-	464,939	3,947,503
Total net position - December 31, 2017	\$ 497,837	\$ 368,588	\$ 2,594,364	\$ 850	\$ -	\$ 441,996	\$ 3,903,635

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2017

Description	Business-type Activities					
	Major Enterprise Funds				Non-Major Enterprise Funds	Totals
	Water	Garbage	Sewer	Sewer & Water Reserve		
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 327,217	\$ 167,553	\$ 62,554	\$ -	\$ 19,420	\$ 576,744
Cash paid to suppliers	(242,141)	(65,395)	(17,793)	-	(28,216)	(353,545)
Cash paid to employees	(70,582)	(88,131)	(28,977)	-	-	(187,690)
Net cash provided (used) by operating activities	14,494	14,027	15,784	-	(8,796)	35,509
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Advances from (to) other funds	-	-	(10,000)	-	-	(10,000)
Subsidies from other governments	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	(10,000)	-	-	(10,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase/construction of capital assets	(24,250)	-	(15,250)	-	-	(39,500)
Proceeds from sale of capital assets	-	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	(24,250)	-	(15,250)	-	-	(39,500)
Net increase (decrease) in cash and cash equivalents	(9,756)	14,027	(9,466)	-	(8,796)	(13,991)
Cash and cash equivalents - January 1, 2017	159,091	185,176	19,279	25,850	50,156	439,552
Cash and cash equivalents - December 31, 2017	\$ 149,335	\$ 199,203	\$ 9,813	\$ 25,850	\$ 41,360	\$ 425,561
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	\$ 12,543	\$ (5,271)	\$ (28,197)	\$ -	\$ (22,943)	\$ (43,868)
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation expense	9,200	18,605	41,457	-	14,049	83,311
(Increase) decrease in accounts receivable	(8,661)	53	2,110	-	-	(6,498)
Increase (decrease) in customer deposits	150	-	-	-	-	150
Increase (decrease) in accounts payable	757	105	336	-	98	1,296
Increase (decrease) in compensated absences payable	505	535	78	-	-	1,118
Total adjustments	1,951	19,298	43,981	-	14,147	79,377
Net cash provided (used) by operating activities	\$ 14,494	\$ 14,027	\$ 15,784	\$ -	\$ (8,796)	\$ 35,509

The notes to the financial statements are an integral part of this statement.

CITY OF BEACH
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FISCAL YEAR ENDING DECEMBER 31, 2017

Description	Agency Funds
ASSETS	\$ 172,869
Cash and cash equivalents	
	172,869
Total Assets	
 LIABILITIES	
Warrants payable	172,869
Total Liabilities	\$ 172,869

The notes to the financial statements are an integral part of this statement.

**CITY OF BEACH
BEACH, NORTH DAKOTA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. **Summary of Significant Accounting Policies**

The City of Beach operates under a City Council form of government. The financial statements of the City of Beach, North Dakota (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The City's significant accounting policies are described below.

Reporting Entity

The City is governed by an elected Mayor and City Council. The City's basic financial statements include the accounts of all City operations. The criteria for including organizations within the City's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

There are no component units to be included with the City as reporting entities.

Basic Financial Statements

In accordance with GASB Statement No. 34 (*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*), the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Position and Statement of Activities) report on the City as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The Government-wide Statement of Net Position reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets

1. **Summary of Significant Accounting Policies – cont.**
Basic Financial Statements – cont.

less liabilities equal net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position is those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use, or directly benefit from goods, services, or privileges provided by a particular function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income, and other revenues, not identifiable with particular functions or programs, are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements, are fund financial statements for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds as defined by GASB Statement No. 34.

Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives government the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The City reports the following major governmental funds:

General Fund - This fund reports the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Street Improvement 2016-2 – This fund is used for the collection of special assessments. This fund will also be used to repay the Bank of North Dakota note.

1. **Summary of Significant Accounting Policies – cont.**
Basic Financial Statements – cont.

Street Improvement 2017-1 – This fund is used for construction of the street project.

The City reports the following major Proprietary Funds:

Water Utility Fund - This fund is used to account for operating and non-operating revenues and expenses of the public water utility system. The fund is maintained on the full accrual basis of accounting.

Garbage Enterprise Fund - This fund accounts for the operating of refuse pickup and disposal.

Sewer Fund - This fund accounts for operating and non-operating revenues and expenses of the public sewer system.

Sewer & Water Reserve – This fund holds funds set aside for major projects of the sewer and water departments.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental

1. **Summary of Significant Accounting Policies – cont.**
Measurement Focus and Basis of Accounting – cont.

activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements but are included in the fund columns in the proprietary funds financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Fiduciary funds account for assets held by the City in a trustee or agency capacity on behalf of others and therefore, are not available to support City programs. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City programs.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, curbs, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 with a useful life of one year or more.

1. **Summary of Significant Accounting Policies – cont.**
Capital Assets – cont.

Assets are recorded at historical 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.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 - 70
Building improvements	20
Public domain infrastructure	40
System infrastructure	40 - 100
Vehicles	12 - 15
Equipment other than vehicles	12 - 20
Office equipment	5
Computer equipment	5

No provision is being made to capitalize interest on debt to finance construction of assets.

Taxes and Assessments

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained. Accounts receivable are reported as net of revenues collected in advance.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained. Inventories were not, however, considered material.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for disbursements initially made from it that are properly applicable to another fund are recorded as disbursements in the reimbursing.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

1. **Summary of Significant Accounting Policies – cont.**

Encumbrances

Encumbrance accounting is used for the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

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 borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balances – Governmental Funds

As of December 31, 2017, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provision, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only City Council may assign amounts for specific purposes.

1. **Summary of Significant Accounting Policies – cont.**
Fund Balances – Governmental Funds – cont.

As of December 31, 2017, fund balances are composed of the following:

	General Funds	Street Improvement 2016-2	Street Improvement 2017-1	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:	\$ 4,274	\$ -	\$ -	\$ 193,966	\$ 198,240
Restricted:					
Highway Distribution	-	-	-	193,966	193,966
City Occupancy	-	-	-	39,855	39,855
Special Assessment	-	(6,781)	-	43,280	36,499
Emergency	-	-	-	14,135	14,135
Committed:					
Pool Sales Tax	-	-	-	2,421	2,421
City Sales Tax	-	-	-	232,889	232,889
Walking/Biking Path	-	-	-	7,370	7,370
Assigned:					
Capital Projects	-	-	-	110,084	110,084
Tri-Centennial	-	-	-	11,252	11,252
Unassigned Funds	<u>457,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>457,035</u>
Total fund balances	\$ <u>461,309</u>	\$ <u>(6,781)</u>	\$ <u>-</u>	\$ <u>655,252</u>	\$ <u>1,109,780</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

2. **Cash**

The City maintains a cash pool for all funds under the control of the City Auditor. Cash and cash equivalents include cash and cash items of checking and savings deposits which are highly liquid or have a maturity date of three months or less when purchased.

2. **Cash – cont.**

The composition of cash on December 31, 2017 was as follows:

<u>Cash</u>	
Cash in Banks	
Demand and Savings Deposits	\$ 1,535,912
Total	<u>\$ 1,535,912</u>

Deposits - At year-end, the carrying amount of the City's deposits was \$1,535,912 and the bank balance was \$2,009,861. These deposits include demand and savings deposits. Of the bank balance, \$548,085 was covered by Federal depository insurance, the balance \$1,461,776 was covered by pledged securities.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party.

North Dakota statutes require that the City obtain pledged securities for the uninsured portion of the deposits equal to 110% of such deposits. The amount of collateral held for City deposits at December 31, 2017 exceeded the amount required by state statutes.

State statutes authorize local governments to invest in: a) Bonds, treasury bills, and notes or other securities that are a direct obligation of, or an obligation insured or guaranteed by the Treasury of the United States or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) Certificates of deposit, savings deposits, or other deposits fully insured or guaranteed by the federal deposit insurance corporation and placed for the benefit of the public depositor by a public depository through an appropriate deposit placement service as determined by the commissioner of financial institutions, e) State and local securities, and f) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

The \$1,671 of restricted cash in the Water Fund is for customer deposits.

3. **Accounts Receivable**

Accounts receivable consists of billings for December and accounts delinquent at December 31.

4. **Taxes Receivable**

Taxes receivable consists of delinquent uncollected taxes at December 31.

Property tax revenue is recognized in compliance with the National Council on Government Accounting (NCGA) Interpretation 3, "Revenue Recognition-Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means then due, or past due and receivable within the

4. **Taxes Receivable – cont.**

current period and collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within the time period, taxes receivable are recorded as unavailable revenue.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the County and usually remitted monthly to the City.

5. **Related Party Transactions**

The City paid Marman Plumbing and General Construction \$55,460 for construction and repair work during 2017. Council-member, Tim Marman, is a 50% owner of Marman Plumbing and General Construction.

6. **Due From County Treasurer**

The amount due from the County Treasurer consists of the cash on hand for taxes and special assessments collected, but not remitted to the City of Beach at December 31.

7. **Risk Management**

The City of Beach participates in the North Dakota Insurance Reserve Fund, North Dakota Fire and Tornado Fund, and the North Dakota Worker's Compensation Bureau to control their risk of loss. There have been no settled claims that exceeded the insurance coverage in any of the past three fiscal years.

8. **Commitment**

The City has contracted with Fallon County, Montana for garbage disposal. The contract requires the City to have Certificate of Insurance with limits of liability equal to or greater than \$1,000,000 before disposing of Class II Solid Waste. Tipping fees are \$25 per ton and are billed monthly. The City also has a contract with G & G Garbage, Inc. for emptying roll off containers. Containers are emptied as needed at a rate of \$300 per empty and are billed monthly.

9. **Compensated Absences**

Upon termination, the City will pay a maximum of 240 hours for vacation and 120 hours for sick pay. As of December 31, 2017, there is \$13,378 of accrued liability in the Long-Term Debt Fund. Of this amount, \$8,688 would come from the General Fund, \$2,728 from the Highway Fund, and \$1,962 from the City Sales Tax Fund. The accrued liability in the Garbage Fund is \$4,674, in the Sewer Fund \$1,840, and in the Water Fund \$4,668. Of these amounts, \$2,043 is estimated to be paid from the Governmental Funds and \$5,104 from the Business-Type Funds during 2018.

10. **Subsequent Events**

The City has evaluated subsequent events through the date of this report, the date which the financial statements were available to be issued. On May 21, 2018, the City signed a contract with an engineering firm for engineering services on a sanitary sewer replacement – 5th Avenue NE to the lagoons for an estimated \$178,500.

11. **Retirement Plan**
Notes to the Financial Statements for the Year Ended December 31, 2017

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

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 plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member 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. The plan permits early retirement at ages 55-64 with three or more years of service.

11. **Retirement Plan – cont.**

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, lifetime 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

11. **Retirement Plan – cont.**

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At 12/31/2017, the Employer reported a liability of \$195,436 for its proportionate share of the net pension liability. The net pension liability was measured as of 06/30/2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At 06/30/2016, the Employer's proportion was 0.020053 percent, which was an increase of 0.000727 from its proportion measured as of 06/30/2015.

For the year ended 12/31/2017, the Employer recognized pension expense of \$33,045. At 12/31/2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,936	\$ 1,810
Changes of assumptions	18,017	9,709
Net difference between projected and actual earnings on pension plan investments	27,266	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,169	-
Employer contributions subsequent to the measurement date (see below)	22,627	-
Total	\$ 100,015	\$ 11,519

\$100,015 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 12/31/2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

11. Retirement Plan – cont.

Year ended June 30:

2017	\$	13,719
2018		13,719
2019		19,667
2020		15,035
2021		3,729
Thereafter		-

Actuarial assumptions. The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

11. **Retirement Plan – cont.**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 277,222	\$ 195,436	\$ 126,527

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

12. **Interfund Transfers**

The following general operating transfers occurred during 2017:

	In	Out
General	\$ -	\$ 1,697
Fire Reserve	1,697	-

13. Capital Assets

Capital asset activity for the fiscal year ended December 31, 2017.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets are not being depreciated				
Land	\$ 161,168	\$ -	\$ -	\$ 161,168
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	<u>161,168</u>	<u>-</u>	<u>-</u>	<u>161,168</u>
Capital assets being depreciated				
Improvements other than buildings	997,619	1,296,256	-	2,293,875
Buildings	665,550	-	-	665,550
Machinery and equipment	<u>1,006,726</u>	<u>101,153</u>	<u>95,717</u>	<u>1,012,162</u>
Total capital assets being depreciated	<u>2,669,895</u>	<u>1,397,409</u>	<u>95,717</u>	<u>3,971,587</u>
Less accumulated depreciation for:				
Improvements other than buildings	(98,928)	-	(77,162)	(176,090)
Buildings	(381,993)	-	(15,393)	(397,386)
Machinery and equipment	<u>(426,382)</u>	<u>20,564</u>	<u>(59,844)</u>	<u>(465,662)</u>
Total accumulated depreciation	<u>(907,303)</u>	<u>20,564</u>	<u>(152,399)</u>	<u>(1,039,138)</u>
Net capital assets being depreciated	<u>1,762,592</u>			<u>2,932,449</u>
Governmental activities capital assets net	<u>\$ 1,923,760</u>			<u>\$ 3,093,617</u>
Depreciation expense for the governmental activities is allocated as follows:				
General Government	\$ 12,590			
Public Safety	11,900			
Public Works	70,816			
Culture and Recreation	<u>57,093</u>			
	<u>\$ 152,399</u>			
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 221,217	\$ -	\$ -	\$ 221,217
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	<u>221,217</u>	<u>-</u>	<u>-</u>	<u>221,217</u>
Capital assets being depreciated				
Buildings	854,820	-	-	854,820
Machinery and equipment	237,458	-	-	237,458
Utility plant	300,000	-	-	300,000
Transmission and distribution	<u>2,649,198</u>	<u>39,499</u>	<u>-</u>	<u>2,688,697</u>
Total capital assets being depreciated	<u>4,041,476</u>	<u>39,499</u>	<u>-</u>	<u>4,080,975</u>
Less accumulated depreciation for:				
Buildings	(349,132)	-	(18,683)	(367,815)
Machinery and equipment	(128,530)	-	(15,934)	(144,464)
Utility plant	(191,423)	-	(4,833)	(196,256)
Transmission and distribution	<u>(74,228)</u>	<u>-</u>	<u>(43,861)</u>	<u>(118,089)</u>
Total accumulated depreciation	<u>(743,313)</u>	<u>-</u>	<u>(83,311)</u>	<u>(826,624)</u>
Net capital assets being depreciated	<u>3,298,163</u>			<u>3,254,351</u>
Business-type activities capital assets net	<u>\$ 3,519,380</u>			<u>\$ 3,475,568</u>

13. Capital Assets – cont.

Depreciation expense for the business-type activities is allocated as follows:

Water	\$ 9,200
Garbage	18,605
Sewer	41,457
Mini-Mall	9,493
Conference Center	4,556
	<u>\$ 83,311</u>

14. Long-term Debt

The City entered into a loan agreement with the Bank of North Dakota on August 1, 2017. The maximum amount of the note is \$3,888,000. The City drew down \$1,296,256 during 2017. The interest rate on the loan is 2%. The City is required to make interest only payments May 1 and November 1, 2018 and begin semi-annual principal and interest payments of \$29,948 May 1, 2019 through May 1, 2047. The loan is secured by the special assessments on the Street Improvement District No. 2016-2. The following are the future required principal and interest payments.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 28,385	\$ 28,385
2019	34,139	25,757	59,896
2020	34,825	25,071	59,896
2021	35,525	24,371	59,896
2022	36,239	23,657	59,896
	<u>140,728</u>	<u>127,241</u>	<u>267,969</u>
2023-2027	192,417	107,062	299,479
2028-2032	212,548	86,931	299,479
2033-2037	234,785	64,694	299,479
2038-2042	259,348	40,131	299,479
2043-2047	256,430	12,997	269,427
	<u>\$1,296,256</u>	<u>\$439,056</u>	<u>\$1,735,312</u>

15. Restatement of Prior Period Balances

In April of 2018, the City settled a lawsuit on a disputed claim from 2015. The settlement resulted in the City paying \$74,645. The disputed claim related to the construction of the lagoon. Payment of \$25,000 from the Sewer Reserve Fund and \$49,645 from the Sewer Fund were paid. Because the claim related to a prior year, the beginning fund balance and net position have been restated. The beginning fund balance in the General Fund has been increased by \$5,246 for a correction to the cash account for old duplicate checks. Beginning special assessment receivables in the water and sewer funds were overstated by \$3,593 each. The beginning net position has been restated to account for the correction.

REQUIRED

SUPPLEMENTARY INFORMATION

CITY OF BEACH
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund

Year Ended December 31, 2017

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ 122,565	\$ 122,565	\$ 94,837	\$ (27,728)
Licenses and Permits	12,600	12,600	13,581	981
Intergovernmental Revenue	265,800	265,800	332,991	67,191
Fines and Forfeitures	200	200	70	(130)
Miscellaneous Revenues	5,000	5,000	8,760	3,760
Investment and Royalty Earnings	500	500	918	418
Total revenues	<u>406,665</u>	<u>406,665</u>	<u>451,157</u>	<u>44,492</u>
Expenditures:				
Current:				
General Government	142,000	142,000	133,552	8,448
Public Safety	127,700	127,700	128,034	(334)
Public Works	119,965	119,965	122,690	(2,725)
Public Health	3,000	3,000	2,085	915
Culture and Recreation	5,000	5,000	3,234	1,766
Miscellaneous	9,000	9,000	8,276	724
Total expenditures	<u>406,665</u>	<u>406,665</u>	<u>397,871</u>	<u>8,794</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>53,286</u>	<u>53,286</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	(1,696)	(1,696)
Sale of Assets	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,696)</u>	<u>(1,696)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>51,590</u>	<u>\$ 51,590</u>
Fund Balances - January 1, 2017 - as previously reported			404,473	
Prior period adjustments			<u>5,246</u>	
Fund Balances - January 1, 2017 - as restated			<u>409,719</u>	
Fund Balances - December 31, 2017			<u>\$ 461,309</u>	

**CITY OF BEACH
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

Budgets

Section 40-40-10, NDCC requires that immediately after the completion of the final budget and the adoption of the annual tax levy and not later than October 10, the City Auditor shall send to the County Auditor a certified copy of the levy and a certified copy of the final budget.

Budgets are prepared for the General Fund and Special Revenue Funds on a cash basis, which is not materially different from the modified accrual basis. Annual appropriations lapse at year end.

Budget Amendment

By an approved motion of the City Council, the expense and transfer budget for the following funds was amended:

	Original Budget	Change	Final Budget
City Sales Tax	\$ 103,250	\$ 26,000	\$ 129,250
Highway Distribution	\$ 71,150	\$ 5,000	\$ 76,150
Street Improvements 2016-2	\$ -	\$ 10,000	\$ 10,000
Street Improvements 2017-1	\$ -	\$ 1,389,661	\$ 1,389,661
Sewer	\$ 104,100	\$ 20,000	\$ 124,100
Water	\$ 337,500	\$ 20,000	\$ 357,500
Mini Mall	\$ 21,080	\$ 16,000	\$ 37,080

ND Public Employees Retirement System

**Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years***

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.014280%	0.019326%	0.020053%
Employer's proportionate share of the net pension liability (asset)	\$ 90,638	\$ 131,414	\$ 195,436
Employer's covered-employee payroll	\$ 120,289	\$ 172,167	\$ 202,084
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%	76.33%	96.71%
Plan fiduciary net pension as a percentage of the total pension liability	77.70%	77.15%	93.62%

*Complete data for this schedule is not available prior to 2015.

Notes to Required Supplementary Information – cont.

**Schedule of Employer Contributions
Last 10 Fiscal Years***

	2015	2016	2017
Statutorily required contribution	\$ 8,968	\$ 13,078	\$ 14,631
Contributions in relation to the statutorily required contribution	\$ (8,565)	\$ (12,258)	\$ 15,231
Contribution deficiency (excess)	\$ 403	\$ 820	\$ (600)
Employer's covered-employee payroll	\$ 120,289	\$ 172,167	\$ 202,084
Contributions as a percentage of covered-employee payroll	7.5%	7.6%	7.54%

*Complete data for this schedule is not available prior to 2015.

Changes of assumptions.

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

SUPPLEMENTARY INFORMATION

CITY OF BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Non-Major Special Revenue Funds
Year Ended December 31, 2017

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes/Special Assessments	\$ 7,400	\$ 7,400	\$ 3,942	\$ (3,458)
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	219,400	219,400	218,452	(948)
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	60	60	168	108
Total revenues	<u>226,860</u>	<u>226,860</u>	<u>222,562</u>	<u>(4,298)</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	177,400	208,400	142,180	66,220
Public Health	-	-	-	-
Culture and Recreation	40,000	40,000	29,997	10,003
Community Development	5,000	5,000	3,590	1,410
Miscellaneous	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	1,500	1,500	-	1,500
Total expenditures	<u>223,900</u>	<u>254,900</u>	<u>175,767</u>	<u>79,133</u>
Excess of revenues over expenditures	<u>2,960</u>	<u>(28,040)</u>	<u>46,795</u>	<u>74,835</u>
Other Financing Sources (Uses):				
Operating Transfers In	10,000	10,000	-	(10,000)
Operating Transfers (Out)	-	-	-	-
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ 12,960</u>	<u>(\$18,040)</u>	46,795	<u>\$64,835</u>
Fund Balances - January 1, 2017			498,373	
Fund Balances - December 31, 2017			<u>\$545,168</u>	

CITY OF BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Debt Service Funds
Year Ended December 31, 2017

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Culture and Recreation	-	-	-	-
Miscellaneous	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	10,000	6,781	3,219
Total expenditures	<u>-</u>	<u>10,000</u>	<u>6,781</u>	<u>3,219</u>
Excess of revenues over expenditures	<u>-</u>	<u>(10,000)</u>	<u>(6,781)</u>	<u>3,219</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>(\$10,000)</u>	<u>(6,781)</u>	<u>\$3,219</u>
Fund Balances - January 1, 2017			<u>0</u>	
Fund Balances - December 31, 2017			<u>(\$6,781)</u>	

CITY OF BEACH
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Capital Project Funds

Year Ended December 31, 2017

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	-	1,389,661	1,296,256	93,405
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	1,389,661	1,296,256	93,405
Excess of revenues over (under) expenditures	-	(1,389,661)	(1,296,256)	93,405
Other Financing Sources (Uses):				
Loan Proceeds	-	1,477,125	1,296,256	(180,869)
Operating Transfers In	-	-	1,696	1,696
Operating Transfers (Out)	-	-	-	-
Total other financing sources (uses)	-	1,477,125	1,297,952	(179,173)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$ -	\$ 87,464	1,696	\$ (85,768)
Fund Balances - January 1, 2017 - as previously reported			134,238	
Prior period adjustments			(25,850)	
Fund Balances - January 1, 2017 - as restated			108,388	
Fund Balances - December 31, 2017			\$ 110,084	



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Licensed in North Dakota and Montana

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

To the City Council
Beach, North Dakota 58621

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beach, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Beach, North Dakota's basic financial statements, and have issued our report thereon dated June 25, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations,

during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

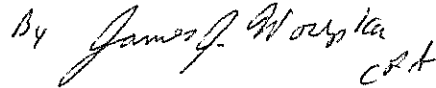
Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James J. Wosepka, PC

By  C.R.A.

June 25, 2018
Beach, North Dakota