

**CITY OF BEULAH  
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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**CITY OF BEULAH, NORTH DAKOTA**

**CITY OFFICIALS**

Mayor

Darrell Bjerke

City Council

Travis Frey  
Eric Hoffer  
Brant Keller  
Kathy Kelsch  
Ben Lenzen  
Joel Morgan  
Clyde Schulz  
Kelsey Timmer

City Auditor

Heather Ferebee

## **INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Beulah, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, discretely presented component units (except the Housing Authority), each major fund, and the aggregate remaining fund information of the City of Beulah, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Disclaimer
General Fund	Unmodified
Municipal Highway Fund	Unmodified
Special Assessment #22	Unmodified
Water Plant Improvements	Unmodified
Water Fund	Unmodified
Garbage Fund	Unmodified
Sewer Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

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

The financial statements of the Beulah Housing Authority, a component unit of the City, have not been audited, and we were not engaged to audit the Beulah Housing Authority's financials as a part of our audit of the City's basic financial statements. The Beulah Housing Authority's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 16 percent, -4 percent, and 15 percent of the assets, net position, and revenues, respectively, of the City's aggregate discretely presented component units.

### Disclaimer of Opinion

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

### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Beulah, North Dakota, as of December 31, 2016, and, the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

### Correction of an Error

As discussed in Note 13 to the financial statements, a correction was made to capitalize street improvements that were previously expensed on the government wide financial statements. Our opinion is not modified with respect to that matter.

## **Basis of Accounting**

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

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Beulah's basic financial statements. The budgetary comparison schedules are the responsibility of management and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 May 26, 2017, on our consideration of the City of Beulah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Beulah's internal controls over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
Bismarck, North Dakota

May 26, 2017

**CITY OF BEULAH**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2016**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 5,002,707	\$ 1,879,456	\$ 6,882,163	\$ 552,696
Internal balances	950,813	(950,813)	-	-
Total current assets	<u>5,953,520</u>	<u>928,643</u>	<u>6,882,163</u>	<u>552,696</u>
Non-current assets:				
Construction in progress	1,181,129	-	1,181,129	21,900
Capital assets, net of accumulated depreciation	<u>10,887,613</u>	<u>13,797,153</u>	<u>24,684,766</u>	<u>2,054,703</u>
Total non-current assets	<u>12,068,742</u>	<u>13,797,153</u>	<u>25,865,895</u>	<u>2,076,603</u>
Total assets	<u>18,022,262</u>	<u>14,725,796</u>	<u>32,748,058</u>	<u>2,629,299</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Customer deposits held	-	4,230	4,230	-
Current portion of long-term debt	<u>557,873</u>	<u>48,199</u>	<u>606,072</u>	<u>91,995</u>
Total current liabilities	<u>557,873</u>	<u>52,429</u>	<u>610,302</u>	<u>91,995</u>
Non-current liabilities:				
Non-current portion of long-term debt	<u>4,573,557</u>	<u>154,474</u>	<u>4,728,031</u>	<u>598,034</u>
Total liabilities	<u>5,131,430</u>	<u>206,903</u>	<u>5,338,333</u>	<u>690,029</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	6,937,312	13,594,480	20,531,792	1,386,574
Restricted for:				
City Improvements	2,144,949	-	2,144,949	-
Roads	562,374	-	562,374	-
Retirement	5,124	-	5,124	-
Library	57,754	-	57,754	-
Emergency	184,058	-	184,058	-
Cemetery	78,768	-	78,768	-
Swimming Pool	275,957	-	275,957	-
Unrestricted	<u>2,644,536</u>	<u>924,413</u>	<u>3,568,949</u>	<u>552,696</u>
Total net position	<u>\$ 12,890,832</u>	<u>\$ 14,518,893</u>	<u>\$ 27,409,725</u>	<u>\$ 1,939,270</u>

See Notes to the Financial Statements

**CITY OF BEULAH**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 1,057,132	\$ 273,377	\$ -	\$ -	\$ (783,755)	\$ -	\$ (783,755)	
Public safety	679,903	27,710	-	-	(652,193)	-	(652,193)	
Highways and streets	1,017,701	-	-	-	(1,017,701)	-	(1,017,701)	
Culture and recreation	244,508	74,953	4,000	-	(165,555)	-	(165,555)	
Health and welfare	6,964	-	-	-	(6,964)	-	(6,964)	
Economic development	122,688	-	-	-	(122,688)	-	(122,688)	
Interest on long-term debt	146,036	-	-	-	(146,036)	-	(146,036)	
Total governmental activities	<u>3,274,932</u>	<u>376,040</u>	<u>4,000</u>	<u>-</u>	<u>(2,894,892)</u>	<u>-</u>	<u>(2,894,892)</u>	
Business-type activities:								
Water	483,544	767,641	-	-	-	284,097	284,097	
Sewer	75,137	263,703	-	-	-	188,566	188,566	
Garbage	415,129	371,074	-	-	-	(44,055)	(44,055)	
Water equipment reserve	172,014	-	-	-	-	(172,014)	(172,014)	
Garbage equipment reserve	18,188	38,885	-	-	-	20,697	20,697	
Total business-type activities	<u>1,164,012</u>	<u>1,441,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>277,291</u>	<u>277,291</u>	
Total primary government	<u>4,438,944</u>	<u>1,817,343</u>	<u>4,000</u>	<u>-</u>	<u>(2,894,892)</u>	<u>277,291</u>	<u>(2,617,601)</u>	
Component units	<u>286,823</u>	<u>175,326</u>	<u>94,358</u>	<u>-</u>				\$ (17,139)
<b>General revenues:</b>								
Taxes:								
Property taxes, levied for general purposes					536,776	-	536,776	31,888
Property taxes, levied for special purposes					545,741	-	545,741	-
Sales taxes					489,484	-	489,484	-
State aid distribution					158,754	-	158,754	17,924
Municipal highway tax					210,632	-	210,632	-
Franchise taxes					23,562	-	23,562	-
Coal conversion tax					296,909	-	296,909	-
Coal severance tax					622,656	-	622,656	-
Investment earnings					5,988	-	5,988	201
Gain on disposal of fixed assets					6,500	-	6,500	-
Transfers					205,281	(205,281)	-	-
Miscellaneous					158,463	-	158,463	552
Total general revenues and transfers					<u>3,260,746</u>	<u>(205,281)</u>	<u>3,055,465</u>	<u>50,565</u>
Change in net position					<u>365,854</u>	<u>72,010</u>	<u>437,864</u>	<u>33,426</u>
Net position - beginning of year, as previously reported					9,285,380	14,446,883	23,732,263	1,905,844
Prior period adjustment (see Note 13)					<u>3,239,598</u>	<u>-</u>	<u>3,239,598</u>	<u>-</u>
Net position - beginning of year, restated					<u>12,524,978</u>	<u>14,446,883</u>	<u>26,971,861</u>	<u>1,905,844</u>
Net position - end of year					<u>\$ 12,890,832</u>	<u>\$ 14,518,893</u>	<u>\$ 27,409,725</u>	<u>\$ 1,939,270</u>

See Notes to the Financial Statements



**CITY OF BEULAH**  
**BALANCE SHEET – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2016**

	General Fund	Municipal Highway	Special Assessment #22	Water Plant Improvements	Non-major Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 1,693,723	\$ 505,002	\$ -	\$ 841,033	\$ 1,962,949	\$ 5,002,707
Due from other funds	950,813	-	-	-	-	950,813
Total assets	<u>\$ 2,644,536</u>	<u>\$ 505,002</u>	<u>\$ -</u>	<u>\$ 841,033</u>	<u>\$ 1,962,949</u>	<u>\$ 5,953,520</u>
<b><u>FUND BALANCES</u></b>						
Fund balances:						
Restricted	\$ -	\$ 505,002	\$ -	\$ 841,033	\$ 1,962,949	\$ 3,308,984
Unassigned	2,644,536	-	-	-	-	2,644,536
Total fund balances	<u>2,644,536</u>	<u>505,002</u>	<u>-</u>	<u>841,033</u>	<u>1,962,949</u>	<u>5,953,520</u>
Total liabilities and fund balances	<u>\$ 2,644,536</u>	<u>\$ 505,002</u>	<u>\$ -</u>	<u>\$ 841,033</u>	<u>\$ 1,962,949</u>	<u>\$ 5,953,520</u>

See Notes to the Financial Statements

**CITY OF BEULAH**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -**  
**MODIFIED CASH BASIS**  
**DECEMBER 31, 2016**

Total Governmental Funds Balance	\$ 5,953,520
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	12,068,742
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(5,131,430)</u>
Net Position of Governmental Activities	<u>\$ 12,890,832</u>

See Notes to the Financial Statements

**CITY OF BEULAH**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Municipal Highway	Special Assessment #22	Water Plant Improve- ments	Non-major Governmental Funds	Total Governmental Funds
<b><u>REVENUES</u></b>						
Taxes	\$ 468,004	\$ -	\$ -	\$ -	\$ 68,772	\$ 536,776
Special assessments and interest	-	-	-	-	50,723	50,723
License and permits	24,139	-	-	-	-	24,139
Intergovernmental	1,091,729	174,776	-	-	527,127	1,793,632
Charges for services	266,284	-	392,511	-	170,793	829,588
Fines and forfeitures	27,709	-	-	-	-	27,709
Interest	5,988	-	-	-	-	5,988
Miscellaneous	84,190	356	-	-	90,899	175,445
Total revenues	<u>1,968,043</u>	<u>175,132</u>	<u>392,511</u>	<u>-</u>	<u>908,314</u>	<u>3,444,000</u>
<b><u>EXPENDITURES</u></b>						
Current:						
General government	816,377	-	1,092	557	241,708	1,059,734
Public safety	690,900	-	-	-	-	690,900
Highways and streets	22,858	567,315	-	-	14,343	604,516
Culture and recreation	58,581	-	-	-	198,072	256,653
Health and welfare	4,164	-	-	-	-	4,164
Public services	-	-	-	-	84,410	84,410
Economic development	122,688	-	-	-	-	122,688
Debt Service:						
Principal retirement	-	-	365,000	-	139,493	504,493
Interest and fisacl charges	-	-	45,705	-	95,031	140,736
Capital outlays	53,768	-	-	558,410	1,462,627	2,074,805
Total expenditures	<u>1,769,336</u>	<u>567,315</u>	<u>411,797</u>	<u>558,967</u>	<u>2,235,684</u>	<u>5,543,099</u>
Excess (deficiency) of revenues over (under) expenditures	<u>198,707</u>	<u>(392,183)</u>	<u>(19,286)</u>	<u>(558,967)</u>	<u>(1,327,370)</u>	<u>(2,099,099)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>						
Transfers in	457,317	6,149	19,286	1,400,000	291,620	2,174,372
Transfers out	(1,605,175)	-	-	-	(363,916)	(1,969,091)
Proceeds from issuance of debt	-	-	-	-	1,077,953	1,077,953
Total other financing sources and uses	<u>(1,147,858)</u>	<u>6,149</u>	<u>19,286</u>	<u>1,400,000</u>	<u>1,005,657</u>	<u>1,283,234</u>
Net change in fund balances	<u>(949,151)</u>	<u>(386,034)</u>	<u>-</u>	<u>841,033</u>	<u>(321,713)</u>	<u>(815,865)</u>
Fund balances - beginning of year	<u>3,593,687</u>	<u>891,036</u>	<u>-</u>	<u>-</u>	<u>2,284,662</u>	<u>6,769,385</u>
Fund balances - end of year	<u>\$ 2,644,536</u>	<u>\$ 505,002</u>	<u>\$ -</u>	<u>\$ 841,033</u>	<u>\$ 1,962,949</u>	<u>\$ 5,953,520</u>

See Notes to the Financial Statements

**CITY OF BEULAH**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE WITH THE GOVERNMENT-WIDE**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

Net Change in Fund Balance - Governmental Funds \$ (815,865)

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

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

Capital outlay	2,074,805	
Depreciation expense	<u>(321,276)</u>	
Excess of capital outlay over depreciation expense		1,753,529

In the statement of activities, only the gain (loss) on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold. 6,500

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. (1,077,953)

Government wide statements amortize discount on bonds payable over the over the life of the debt, while governmental funds recognize bond proceeds at issuance amount. (4,850)

Governmental funds report repayment of principal on long-term liabilities as an expenditure because the repayments use current financial resources. In contrast, the repayments reduce the balance of the long-term liabilities in the Statement of Net Position.

Bonds payable	445,000	
Capital leases	<u>59,493</u>	
Total long term debt repayment		<u>504,493</u>

Change in Net Position \$ 365,854

See Notes to the Financial Statements

**CITY OF BEULAH**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2016**

	Enterprise Funds			
	Water	Garbage	Sewer	Non-major Enterprise Funds
				Total Enterprise Funds
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 910,191	\$ -	\$ 369,652	\$ 599,613
				\$ 1,879,456
Capital assets:				
Infrastructure	11,758,891	727,732	782,722	-
Equipment and Furniture	-	539,500	29,489	52,435
Less: Accumulated depreciation	(11,387)	(49,240)	(14,637)	(18,352)
Total capital assets	11,747,504	1,217,992	797,574	34,083
				13,797,153
Total assets	12,657,695	1,217,992	1,167,226	633,696
				15,676,609
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Due to other funds	-	950,813	-	-
Customer deposits held	4,230	-	-	-
Capital lease - current	-	48,199	-	-
Total current liabilities	4,230	999,012	-	-
				1,003,242
Noncurrent liabilities:				
Capital lease - noncurrent	-	154,474	-	-
				154,474
Total liabilities	4,230	1,153,486	-	-
				1,157,716
<b><u>NET POSITION</u></b>				
Net investment in capital assets	11,747,504	1,015,319	797,574	34,083
Unrestricted	905,961	(950,813)	369,652	599,613
Total net position	\$ 12,653,465	\$ 64,506	\$ 1,167,226	\$ 633,696
				\$ 14,518,893

See Notes to the Financial Statements

**CITY OF BEULAH**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND**  
**NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Funds				
	Water	Garbage	Sewer	Non-major Enterprise Funds	Total Enterprise Funds
<b><u>OPERATING REVENUES</u></b>					
Charges for services	\$ 767,642	\$ 371,073	\$ 257,338	\$ 38,884	\$ 1,434,937
Miscellaneous	-	-	6,365	-	6,365
Total operating revenues	<u>767,642</u>	<u>371,073</u>	<u>263,703</u>	<u>38,884</u>	<u>1,441,302</u>
<b><u>OPERATING EXPENSES</u></b>					
Salaries and employee benefits	256,446	230,587	20,198	-	507,231
General maintenance and supplies	96,247	125,416	15,390	179,717	416,770
Chemicals and additives	62,141	-	1,143	-	63,284
Utilities	57,541	2,668	28,590	-	88,799
Fuel and vehicles	5,776	20,683	276	-	26,735
Depreciation	5,393	35,775	9,537	10,487	61,192
Total operating expenses	<u>483,544</u>	<u>415,129</u>	<u>75,134</u>	<u>190,204</u>	<u>1,164,011</u>
Operating income	284,098	(44,056)	188,569	(151,320)	277,291
Transfers in	-	63,250	-	-	63,250
Transfers out	<u>(153,815)</u>	<u>-</u>	<u>(59,747)</u>	<u>(54,969)</u>	<u>(268,531)</u>
Change in net position	130,283	19,194	128,822	(206,289)	72,010
Net position - beginning of year	<u>12,523,182</u>	<u>45,312</u>	<u>1,038,404</u>	<u>839,985</u>	<u>14,446,883</u>
Net position - end of year	<u>\$ 12,653,465</u>	<u>\$ 64,506</u>	<u>\$ 1,167,226</u>	<u>\$ 633,696</u>	<u>\$ 14,518,893</u>

See Notes to the Financial Statements

**CITY OF BEULAH**  
**STATEMENT OF CASH FLOW – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Funds				
	Water	Garbage	Sewer	Non-major enterprise funds	Total
Cash flows from operating activities:					
Receipts from customers	\$ 767,642	\$ 371,073	\$ 263,703	\$ 38,884	\$ 1,441,302
Payments to suppliers	(221,705)	(148,767)	(45,399)	(179,717)	(595,588)
Payments to employees	(256,446)	(230,587)	(20,198)	-	(507,231)
Net cash provided (used) by operating activities	<u>289,491</u>	<u>(8,281)</u>	<u>198,106</u>	<u>(140,833)</u>	<u>338,483</u>
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(16,700)	-	-	-	(16,700)
Payment on capital lease obligations	-	(54,969)	-	-	(54,969)
Net cash provided (used) by capital and related financing activities	<u>(16,700)</u>	<u>(54,969)</u>	<u>-</u>	<u>-</u>	<u>(71,669)</u>
Cash flows from noncapital and related financing activities:					
Increase (decrease) in customer deposits	2,085	-	-	-	2,085
Transfers in (out)	(153,815)	63,250	(59,747)	(54,969)	(205,281)
Net cash provided (used) by noncapital and related financing activities	<u>(151,730)</u>	<u>63,250</u>	<u>(59,747)</u>	<u>(54,969)</u>	<u>(203,196)</u>
Net change in cash and cash equivalents	121,061	-	138,359	(195,802)	63,618
Cash and cash equivalents - January 1	<u>789,130</u>	<u>-</u>	<u>231,293</u>	<u>795,415</u>	<u>1,815,838</u>
Cash and cash equivalents - December 31	<u>\$ 910,191</u>	<u>\$ -</u>	<u>\$ 369,652</u>	<u>\$ 599,613</u>	<u>\$ 1,879,456</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 284,098	\$ (44,056)	\$ 188,569	\$ (151,320)	\$ 277,291
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	<u>5,393</u>	<u>35,775</u>	<u>9,537</u>	<u>10,487</u>	<u>61,192</u>
Net cash provided (used) by operating activities	<u>\$ 289,491</u>	<u>\$ (8,281)</u>	<u>\$ 198,106</u>	<u>\$ (140,833)</u>	<u>\$ 338,483</u>
Noncash transactions:					
Assets acquired through capital lease	<u>\$ -</u>	<u>\$ 257,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to the Financial Statements

**CITY OF BEULAH**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – MODIFIED CASH BASIS**  
**AGENCY FUNDS**  
**AS OF ENDED DECEMBER 31, 2016**

	Occupancy Tax	Lodging Tax	Total
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 56,171	\$ 93,500	\$ 149,671
<b><u>LIABILITIES</u></b>			
Amounts held in custody of others	\$ 56,171	\$ 93,500	\$ 149,671

See Notes to the Financial Statements



**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 DESCRIPTION OF THE CITY**

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

**Financial Reporting Entity**

The financial statements of the reporting entity include those of the City of Beulah, North Dakota (the primary government). The financial statements also include audited information of two of the City's component units, the Airport Authority and the Job Development Association (JDA). In addition, the financial statements include the unaudited information of one of the City's component units, the Housing Authority. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of an organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the City. Fiscal dependence can include the City's approval of the budget, issuance of debt, and/or levying of taxes for the organization. Based on these criteria, the Airport Authority, Housing Authority, and JDA all qualify to be discretely presented component units of the City of Beulah. See the 'Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units' on page 3 of the audit report in regards to the component unit not included in the City's financial statements.

Complete financial statements for the Airport Authority and JDA may be obtained at the City's administrative office. These component units were audited by Brady, Martz and Associates, P.C., for the year ended December 31, 2016, and separate reports were issued.

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

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

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

**Fund Accounting**

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

Governmental Funds

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

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

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

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

Major Funds

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

*Governmental*

**General fund** is described above.

**Municipal highway**, a special revenue fund, accounts for the highway distribution from the state to be used for maintenance and repair of roads within the City.

**Special assessment #22**, a debt service fund, is used to account for the accumulation of resources for, and the repayment of, principal, interest and related costs on the street improvement project.

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

*Proprietary*

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

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

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**Sewer**, an enterprise fund, is used to account for sewer services provided to the residents of the City.

**Measurement Focus and Basis of Accounting**

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

Measurement Focus

*Government-wide financial statements*

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

*Fund financial statements*

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

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

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

Basis of Accounting

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

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

to show all capital assets prior to January 1, 2013 at insured values. Capital assets added subsequent to that date are recorded at cost. Under the modified cash basis of accounting, economic development loans are recorded as expenditures when advanced and collections on the notes receivables are recorded as income when received.

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

### **Budgets and Budgetary Accounting**

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

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

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

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

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

### **Cash and Cash Equivalents**

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

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

### **Capital Assets**

Capital assets, which include infrastructure, property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All governmental and business-type activities capital assets are recorded based upon their appraised values as of 2012. Additions made after 2012 are recorded at cost. The assets are

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

updated for additions and retirements during the City's fiscal year. Improvements that significantly extend the useful life of the asset are also capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

All capital asset additions since the year 2012 are depreciated over their estimated useful lives on a straight-line basis. The City has established the following useful lives:

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

### **Long-Term Debt**

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

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

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

### **Equity Classifications**

#### Government-wide Financial Statements

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

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

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

**Fund Financial Statements**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

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

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

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

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

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

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

**Interfund Transactions**

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**Fund Financial Statements**

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

- 1) Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.
- 2) Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
- 3) Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- 4) Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

**Government-wide Financial Statements**

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

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

**Property Taxes**

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

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

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



**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**Insurance Recoveries**

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

**Use of Estimates**

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

**NOTE 3 DEPOSITS**

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

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

Credit Risk:

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

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

As of December 31, 2016, the City had investments in certificates of deposits as authorized by statutes. These amounts are classified as cash and cash equivalents on the financial statements in accordance with the City's policy.

Custodial Credit Risk

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

The City maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2016, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$6,533,845 of the City's deposits are covered by pledged securities held in the City's name. These pledged securities exceed 110% of the uninsured balance.

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

Concentration of Credit Risk:

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

**NOTE 4 INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances between primary government funds at December 31, 2016 is:

<u>Fund</u>	<u>Due To</u>	<u>Due From</u>
<b>Governmental Funds</b>		
General Fund	\$ 950,813	\$ -
<b>Proprietary Funds</b>		
Garbage Fund	<u>-</u>	<u>950,813</u>
Total all funds	<u><u>\$ 950,813</u></u>	<u><u>\$ 950,813</u></u>

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

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Balance 1/1/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/16</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Construction in progress	<u>\$ 830,112</u>	<u>\$ 1,139,629</u>	<u>\$ (788,612)</u>	<u>\$ 1,181,129</u>
Capital assets being depreciated:				
Equipment	1,214,379	173,801	(8,500)	1,379,680
Infrastructure	8,980,043	1,549,987	-	10,530,030
Total capital assets being depreciated	<u>10,194,422</u>	<u>1,723,788</u>	<u>(8,500)</u>	<u>11,909,710</u>
Less accumulated depreciation:				
Equipment	52,191	72,217	-	124,408
Infrastructure	648,630	249,059	-	897,689
Total accumulated depreciation	<u>700,821</u>	<u>321,276</u>	<u>-</u>	<u>1,022,097</u>
Total capital assets being depreciated, net	<u>9,493,601</u>	<u>1,402,512</u>	<u>(8,500)</u>	<u>10,887,613</u>
<b>Net capital assets</b>	<u><u>\$ 10,323,713</u></u>	<u><u>\$ 2,542,141</u></u>	<u><u>\$ (797,112)</u></u>	<u><u>\$ 12,068,742</u></u>

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**Business type activities**

Capital assets being depreciated:

Equipment	\$ 363,783	\$ 257,641	\$ -	\$ 621,424
Infrastructure	13,252,645	16,700	-	13,269,345
Total capital assets being depreciated	<u>13,616,428</u>	<u>274,341</u>	<u>-</u>	<u>13,890,769</u>

Less accumulated depreciation:

Equipment	21,567	47,440	-	69,007
Infrastructure	10,857	13,752	-	24,609
Total accumulated depreciation	<u>32,424</u>	<u>61,192</u>	<u>-</u>	<u>93,616</u>

**Net capital assets**

<u>\$ 13,584,004</u>	<u>\$ 213,149</u>	<u>\$ -</u>	<u>\$ 13,797,153</u>
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**Component units \***

Capital assets not being depreciated:

Construction in progress	<u>\$ 17,500</u>	<u>\$ 4,400</u>	<u>\$ -</u>	<u>\$ 21,900</u>
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Capital assets being depreciated:

Equipment	26,065	-	-	26,065
Buildings	1,740,265	53,870	-	1,794,135
Infrastructure	1,084,246	54,045	-	1,138,291
Total capital assets being depreciated	<u>2,850,576</u>	<u>107,915</u>	<u>-</u>	<u>2,958,491</u>

Less accumulated depreciation:

Equipment	26,065	-	-	26,065
Buildings	344,712	36,419	-	381,131
Infrastructure	457,888	38,704	-	496,592
Total accumulated depreciation	<u>828,665</u>	<u>75,123</u>	<u>-</u>	<u>903,788</u>

Total capital assets being depreciated, net

<u>2,021,911</u>	<u>32,792</u>	<u>-</u>	<u>2,054,703</u>
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**Net capital assets**

<u>\$ 2,039,411</u>	<u>\$ 37,192</u>	<u>\$ -</u>	<u>\$ 2,076,603</u>
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\* The component units include the Housing Authority which was unaudited. See the Independent Auditor's report for more information. As of December 31, 2016, the Housing Authority balances include:

Buildings	\$550,000
Accumulated depreciation – buildings	150,000
Depreciation expense	20,000

Depreciation expense of \$321,276 was charged to Highways and Streets in the Statement of Activities.

The City has entered into a lease agreement as lessee for financing the acquisition of a garbage truck. This lease qualified as a capital lease for accounting purposes and therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. Below are details on the capitalized asset as of December 31, 2016.

Equipment	\$ 257,642
Accumulated amortization	<u>(30,058)</u>
Total	<u>\$ 227,584</u>

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**NOTE 6 LONG TERM DEBT**

The following is a summary of long term debt transactions of the City of Beulah for the year ended December 31, 2016:

	Balance 1/1/16	Additions	Reductions	Balance 12/31/16	Due Within One Year
<b>Governmental activities</b>					
Capital leases	\$ 1,201,113	\$ -	\$ (59,493)	\$ 1,141,620	\$ 62,873
Special assessments	2,920,000	1,030,000	(420,000)	3,530,000	470,000
Revenue bond payable	484,507	47,953	(25,000)	507,460	25,000
Bond discount	(37,500)	(15,450)	5,300	(47,650)	-
Total	<u>\$ 4,568,120</u>	<u>\$ 1,062,503</u>	<u>\$ (499,193)</u>	<u>\$ 5,131,430</u>	<u>\$ 557,873</u>
<b>Business type activities</b>					
Capital leases	<u>\$ -</u>	<u>\$ 257,642</u>	<u>\$ (54,969)</u>	<u>\$ 202,673</u>	<u>\$ 48,199</u>
<b>Component units *</b>					
Notes payable	\$ 213,902	\$ -	\$ (13,181)	\$ 200,721	\$ 82,560
Revenue bond payable	633,268	-	(143,960)	489,308	9,435
Bond discount	(1,800)	-	1,800	-	-
Total	<u>\$ 845,370</u>	<u>\$ -</u>	<u>\$ (155,341)</u>	<u>\$ 690,029</u>	<u>\$ 91,995</u>

\* The component units include the Housing Authority which was unaudited. See the Independent Auditor's report for more information. As of December 31, 2016, the Housing Authority balances include:

Revenue bonds payable	\$489,308
Payments made on bonds	(8,960)
Due within one year	9,435

Long term debt at December 31, 2016 consists of the following individual issues:

**Governmental activities:**

<u>Capital lease:</u>	Balance 12/31/16
Capital lease for acquisition of pool. Payable in semi-annual installments of \$61,414, beginning February 1, 2010, including interest at 5.25% through August 1, 2029. Paid by the Swimming Pool fund.	<u>\$ 1,141,620</u>

Special assessment:

\$3,600,000 Refunding Improvement Bonds of 2011 (Street Improvement District #22) - due in annual installments of \$320,000 to \$395,000 through May 1, 2021; interest rates of .60% to 2.950% (less discount of \$21,000 as of December 31, 2016). Paid by the Special Assessment #22 fund.	1,734,000
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**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

	Balance 12/31/16
<u>Special assessment (continued):</u>	
\$800,000 Refunding Improvement Bonds of 2015 (Street Improvement District #23) - due in principal annual installments of \$50,000 to \$55,000 through May 1, 2030; semi-annual interest payments with interest rates of 1.50% to 3.50% (less discount of \$11,200 as of December 31, 2016). Paid by the Street Improvement District #23 fund.	\$ 733,800
\$1,030,000 Refunding Improvement Bonds of 2016 (Street Improvement District #24; Street Improvement District #25; Water Improvement District #25) - due in principal annual installments of \$60,000 to \$80,000 through May 1, 2031; semi-annual interest payments with interest rates of 1.50% to 3.15% (less discount of \$15,450 as of December 31, 2016). Paid by the Street Improvement District #24, Street Improvement District #25, and Water Improvement District #25 funds.	1,014,550
Total special assessment debt	3,525,085
<u>Revenue bonds payable:</u>	
\$586,800 Revenue Bonds of 2014 (Sewer Project), \$557,460 issued as of December 31, 2016 - due in annual installments of \$25,000 to \$40,000 through September 1, 2033; interest rate of 2.00%. Paid by the South Lagoon Revenue Bond fund.	507,460
Total long term debt - Governmental activities	\$ 5,174,165
<b>Business-type activities:</b>	
<u>Capital lease:</u>	
Capital lease for acquisition of garbage truck. Payable in annual installments of \$54,969, beginning June 15, 2016, including interest at 3.34% through June 15, 2020. Paid by the Garbage fund.	\$ 202,673

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

<b>Component units:</b>	<b>Balance 12/31/16</b>
<u>Notes payable:</u>	
\$111,300 Note payable - due in monthly payments of \$783 through May 1, 2017, with a balloon payment of \$72,065 on June 1, 2017; interest rate of 5.75%	\$ 73,891
\$187,000 Note payable - due in monthly payments of \$1,260 through December 5, 2017 with a balloon payment of \$118,688 on January 5, 2018; interest rates of 5.25%.	<u>126,830</u>
Total notes payable	<u>200,721</u>
<u>Revenue bonds payable:</u>	
\$550,000 Revenue Bonds of 2008 - due in monthly installments of \$2,605 through February 1, 2044; interest rate of 4.50%. (Housing Authority - unaudited)	<u>489,308</u>
Total long term debt - Component units	<u><u>\$ 690,029</u></u>

The future expected requirements to amortize long-term debt, including interest, as of December 31, 2016 are as follows:

**Governmental activities**

	<b>Special Assessments</b>		<b>Revenue Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 470,000	\$ 80,713	\$ 25,000	\$ 10,300
2018	465,000	75,378	25,000	9,800
2019	470,000	65,391	25,000	9,300
2020	470,000	54,128	25,000	8,800
2021	470,000	41,462	25,000	8,300
2022 - 2026	610,000	134,271	150,000	33,000
2027 - 2031	575,000	44,351	165,000	17,700
2032 - 2036	-	-	67,460	2,300
Bond discount	(47,650)	47,650	-	-
	<u>\$ 3,482,350</u>	<u>\$ 543,343</u>	<u>\$ 507,460</u>	<u>\$ 99,500</u>

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

	Capital Leases		Total	
	Principal	Interest	Principal	Interest
2017	\$ 62,873	\$ 59,955	\$ 557,873	\$ 150,968
2018	66,264	56,564	556,264	141,742
2019	69,838	52,990	564,838	127,680
2020	73,473	49,355	568,473	112,283
2021	77,568	45,260	572,568	95,022
2022 - 2026	455,205	158,935	1,215,205	326,206
2027 - 2031	336,399	32,086	1,076,399	94,137
2032 - 2036	-	-	67,460	2,300
Bond discount	-	-	(47,650)	47,650
	<u>\$ 1,141,620</u>	<u>\$ 455,144</u>	<u>\$ 5,131,430</u>	<u>\$ 1,097,988</u>

**Business-type activities**

	Capital Leases	
	Principal	Interest
2017	\$ 48,199	\$ 6,770
2018	49,809	5,160
2019	51,473	3,496
2020	53,192	1,777
	<u>\$ 202,673</u>	<u>\$ 17,203</u>

**Component units \***

	Notes Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2017	\$ 82,560	\$ 8,539	\$ 9,435	\$ 21,825
2018	118,161	527	9,868	21,392
2019	-	-	10,322	20,938
2020	-	-	10,738	20,522
2021	-	-	11,289	19,971
2022 - 2026	-	-	64,661	91,639
2027 - 2031	-	-	80,948	75,352
2032 - 2036	-	-	101,311	54,989
2037 - 2041	-	-	126,876	29,424
2042 - 2046	-	-	63,860	3,254
	<u>\$ 200,721</u>	<u>\$ 9,066</u>	<u>\$ 489,308</u>	<u>\$ 359,306</u>

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

	Total	
	Principal	Interest
2017	\$ 91,995	\$ 30,364
2018	128,029	21,919
2019	10,322	20,938
2020	10,738	20,522
2021	11,289	19,971
2022 - 2026	64,661	91,639
2027 - 2031	80,948	75,352
2032 - 2036	101,311	54,989
2037 - 2041	126,876	29,424
2042 - 2046	63,860	3,254
	<u>\$ 690,029</u>	<u>\$ 368,372</u>

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

**NOTE 7 PENSION PLAN**

The City sponsors a defined contributions pension plan administered by Mainstay through New York Life. The plan and contribution requirements were established and may be amended by the City Council. The plan covers substantially all full-time permanent employees. This plan requires employer contributions of 8% of each participating employee's gross wage. City contributions to the retirement program amounted to \$81,286 in 2016, \$71,561 in 2015, and \$59,866 in 2014. The plan does not include provisions for employee contributions. The City's policy is to fund all pension costs accrued. Since the pension plan is a "money purchase plan," actuarially computed vested benefits do not exceed the pension plan.

**NOTE 8 CONCENTRATIONS OF CREDIT RISK**

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

**NOTE 9 RISK MANAGEMENT**

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

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence.



**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

during a 12 month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

**NOTE 10 FUND BALANCE/NET POSITION**

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	General Fund	Municipal Highway	Water Plant Improvements	Non-major Governmental Funds	Total
Restricted for:					
City Improvements	\$ -	\$ -	\$ 841,033	\$ 1,303,916	\$ 2,144,949
Roads	-	505,002	-	57,372	562,374
Retirement	-	-	-	5,124	5,124
Library	-	-	-	57,754	57,754
Emergency	-	-	-	184,058	184,058
Cemetery	-	-	-	78,768	78,768
Swimming Pool	-	-	-	275,957	275,957
Unassigned	2,644,536	-	-	-	2,644,536
	<u>\$ 2,644,536</u>	<u>\$ 505,002</u>	<u>\$ 841,033</u>	<u>\$ 1,962,949</u>	<u>\$ 5,953,520</u>

**NOTE 11 LEGAL COMPLIANCE (BUDGETS)**

The City's governing board amended the budgets during the year ended December 31, 2016. Amounts recorded for original and final budget are shown in the budget to actual schedules included with the supplementary information.

The City's had expenditures that exceeded budgeted appropriations for the following funds for the year ended December 31, 2016.

City Sales Tax – fund 2313	\$274,825
Municipal Highway – fund 2010	19,470
Street Improvement District #25 – fund 2125	10,016
Library – fund 2340	3,000
Cemetery – fund 2080	999
South Lagoon – fund 3130	937

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

**NOTE 12 TRANSFERS**

The following is a reconciliation of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General	\$ 457,317	\$ 1,605,175
Municipal Highway	6,149	-
Special Assessment #22	19,286	-
Water Plant Improvement	1,400,000	-
Non-major	291,620	363,916
Proprietary Funds:		
Water	-	153,815
Sewer	-	59,747
Garbage	63,250	-
Non-major	-	54,969
	<u>\$ 2,237,622</u>	<u>\$ 2,237,622</u>

**NOTE 13 PRIOR PERIOD ADJUSTMENT**

The City has made a prior period adjustment to the December 31, 2015 financial statements to capitalize street improvement project costs that had previously been expensed at the government wide level. The prior period adjustment increased capital assets by \$3,876,572, increased accumulated depreciation by \$636,974 and increased the government wide net position by \$3,239,598.

**NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

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

**CITY OF BEULAH**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2016**

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

**NOTE 15 COMMITMENTS**

The City has an on-going sewer project, for which bonds were issued in the year ended December 31, 2014 to fund. This project has an estimated cost of completion of \$774,311. As of December 31, 2016, the City has paid \$761,100 for this project. There are \$13,211 of unpaid costs still remaining on the estimated cost of completion.

The City has Street District #25/ Water District #25 improvement project in progress as of December 31, 2016. This project has an expected total cost of \$360,792, and has a remaining estimated cost to complete of \$24,691. The City has paid \$336,101 on this project as of December 31, 2016. The Street District #25/ Water District #25 is to be financed by a new bond issue in the year ended December 31, 2016. Expenses for this project have been paid out of the sales tax fund as approved by City Council and will be reimbursed by bond proceeds.

The City also has Water Treatment Plant and Meter Upgrades in progress as of December 31, 2016. This project has an expected total cost of \$5,930,000, and has a remaining estimated cost to complete of \$5,371,033. As of December 31, 2016, the City has paid \$558,967. The City transferred \$1,400,000 of surge funds received from the State of North Dakota, and expect to receive an additional \$2,600,000 in 2017. A loan will support the remainder of the expenditure.

The City's other commitments include: painting the water tower, repairs to New Energy Drive, and payments to the Sakakawea Medical Center Foundation. In total, these commitments have an expected cost of \$520,740, with \$366,228 paid as of the year ended December 31, 2016. These have been paid by the general fund, and there is no plan for additional debt in order to complete these commitments.

**CITY OF BEULAH**  
**BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Taxes	\$ 370,500	\$ 370,500	\$ 468,004	\$ 97,504
Licenses and permits	27,560	27,560	24,139	(3,421)
Intergovernmental	1,311,500	1,318,300	1,091,729	(226,571)
Charges for services	176,720	176,720	266,284	89,564
Fines and forfeits	23,000	23,000	27,709	4,709
Interest	5,000	5,000	5,988	988
Miscellaneous	32,800	32,800	84,190	51,390
Total revenues	<u>1,947,080</u>	<u>1,953,880</u>	<u>1,968,043</u>	<u>14,163</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,822,694	1,836,194	816,377	1,019,817
Public safety	672,411	672,411	690,900	(18,489)
Highways and streets	37,703	37,703	22,858	14,845
Culture and recreation	62,200	62,200	58,581	3,619
Health and welfare	3,500	3,500	4,164	(664)
Economic development	117,752	117,752	122,688	(4,936)
Capital outlays	-	-	53,768	(53,768)
Total expenditures	<u>2,716,260</u>	<u>2,729,760</u>	<u>1,769,336</u>	<u>960,424</u>
Excess (deficiency) of revenues over expenditures	<u>(769,180)</u>	<u>(775,880)</u>	<u>198,707</u>	<u>974,587</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	471,479	457,317	(14,162)
Transfers out	<u>(278,000)</u>	<u>(630,156)</u>	<u>(1,605,175)</u>	<u>(975,019)</u>
Total other financing sources (uses)	<u>(278,000)</u>	<u>(158,677)</u>	<u>(1,147,858)</u>	<u>(989,181)</u>
Net change in fund balances	<u>\$ (1,047,180)</u>	<u>\$ (934,557)</u>	<u>(949,151)</u>	<u>\$ (14,594)</u>
Fund balance - beginning of year			<u>3,593,687</u>	
Fund balance - end of year			<u>\$ 2,644,536</u>	

**CITY OF BEULAH**  
**BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS**  
**MUNICIPAL HIGHWAY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Intergovernmental	\$ 215,000	\$ 181,282	\$ 174,776	\$ (6,506)
Miscellaneous	-	-	356	356
Total revenues	<u>215,000</u>	<u>181,282</u>	<u>175,132</u>	<u>(6,150)</u>
<b>EXPENDITURES</b>				
Highways and streets	<u>690,535</u>	<u>547,845</u>	<u>567,315</u>	<u>(19,470)</u>
Total expenditures	<u>690,535</u>	<u>547,845</u>	<u>567,315</u>	<u>(19,470)</u>
Excess (deficiency) of revenues over expenditures	<u>(475,535)</u>	<u>(366,563)</u>	<u>(392,183)</u>	<u>(25,620)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	6,149	6,149
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>6,149</u>	<u>6,149</u>
Net change in fund balances	<u>\$ (475,535)</u>	<u>\$ (366,563)</u>	<u>(386,034)</u>	<u>\$ (19,471)</u>
Fund balance - beginning of year			-	
Fund balance - end of year			<u>\$ (386,034)</u>	

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

To the City Council  
City of Beulah, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units (except the Housing Authority), each major fund, and the aggregate remaining fund information of the City of Beulah, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Beulah, North Dakota's basic financial statements and have issued our report thereon dated May 26, 2017. In our report, our opinion was modified due to the fact the City had an unaudited component unit. Except for the scope limitation discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2016-001 as described in the accompanying schedule of findings and responses to be a material weakness.

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. We consider the deficiency 2016-002 as described in the accompany schedule of findings and responses to be a significant deficiency.

### **Compliance and Other Matters**

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

### **City of Beulah's Responses to Findings**

The City of Beulah's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Beulah's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

We noted certain matters that were reported to management of the City in a separate letter dated May 26, 2017.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
Bismarck, North Dakota

May 26, 2017



**CITY OF BEULAH**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2016**

**2016-001: Adjusting Journal Entries - Material Weakness**

**Criteria**

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

**Condition**

During our audit, current year adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

**Cause**

The City's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

**Effect**

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the modified cash basis of accounting.

**Recommendation**

We recommend that the City review its current training system for its accounting personnel and determine if it is cost effective for the City to obtain this knowledge internally.

**Views of responsible officials**

Due to the small size of the City, it is currently not cost effective for the City personnel to obtain the level of training necessary to completely eliminate this internal control finding. The City will review training options and determine what level of training can be obtained on a cost effective basis.

**CITY OF BEULAH**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**DECEMBER 31, 2016**

**2016-002: Auditor Preparation of Financial Statements**

Criteria

An appropriate system of internal controls requires the City to determine that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the City's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The City does not have the internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The City's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with the modified cash basis of accounting. However, the entity is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to end users.

Recommendation

We recommend that the City review its current training system for its accounting personnel and determine if it is cost effective for the City to obtain this knowledge internally. The City also could begin to address this material weakness through the use of current disclosure checklists by accounting staff prior to the finalization of the City's year-end or consider outsourcing of the financial statement preparation and review functions.

Views of Responsible Officials

Due to the small size of the City, it is currently not cost effective for the City personnel to obtain the level of training necessary to completely eliminate this internal control finding. The City will review training options and determine what level of training can be obtained on a cost effective basis.