

**CITY OF BEULAH
BEULAH, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2017

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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, 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, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

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

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

The financial statements of the Beulah Housing Authority, a component unit of the City, have not been audited, and we were not engaged to audit the Beulah Housing Authority's financials as a part of our audit of the City's basic financial statements. The Beulah Housing Authority's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 16 percent, -4 percent, and 13 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, 2017, 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 properly dispose of land from a component unit as of December 31, 2016. Our opinion on the aggregate discretely presented component units is not modified with respect to this 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 this matter.

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the City of Beulah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Beulah's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Beulah's internal controls over financial reporting and compliance.



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

June 28, 2018

CITY OF BEULAH
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 4,984,396	\$ 1,843,332	\$ 6,827,728	\$ 400,148
Internal balances	870,207	(870,207)	-	-
Total current assets	<u>5,854,603</u>	<u>973,125</u>	<u>6,827,728</u>	<u>400,148</u>
Non-current assets:				
Construction in progress	3,419,090	-	3,419,090	144,092
Land	-	-	-	10,000
Capital assets, net of accumulated depreciation	11,195,973	13,335,818	24,531,791	2,050,464
Total non-current assets	<u>14,615,063</u>	<u>13,335,818</u>	<u>27,950,881</u>	<u>2,204,556</u>
Total assets	<u>20,469,666</u>	<u>14,308,943</u>	<u>34,778,609</u>	<u>2,604,704</u>
<u>LIABILITIES</u>				
Current liabilities:				
Customer deposits held	-	6,430	6,430	-
Current portion of long-term debt	624,349	49,809	674,158	23,353
Total current liabilities	<u>624,349</u>	<u>56,239</u>	<u>680,588</u>	<u>23,353</u>
Non-current liabilities:				
Non-current portion of long-term debt	<u>5,308,480</u>	<u>104,665</u>	<u>5,413,145</u>	<u>643,620</u>
Total liabilities	<u>5,932,829</u>	<u>160,904</u>	<u>6,093,733</u>	<u>666,973</u>
<u>NET POSITION</u>				
Net investment in capital assets	8,682,234	13,181,344	21,863,578	1,537,583
Restricted for:				
City Improvements	2,038,501	-	2,038,501	-
Roads	378,421	-	378,421	-
Retirement	74,273	-	74,273	-
Library	78,725	-	78,725	-
Emergency	183,135	-	183,135	-
Cemetery	78,866	-	78,866	-
Swimming Pool	229,183	-	229,183	-
Unrestricted	<u>2,793,499</u>	<u>966,695</u>	<u>3,760,194</u>	<u>400,148</u>
Total net position	<u>\$ 14,536,837</u>	<u>\$ 14,148,039</u>	<u>\$ 28,684,876</u>	<u>\$ 1,937,731</u>

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government:								
Governmental activities:								
General government	\$ 993,546	\$ 239,320	\$ -	\$ 1,650,178	\$ 895,952	\$ -	\$ 895,952	
Public safety	788,007	27,178	163,916	-	(596,913)	-	(596,913)	
Highways and streets	1,472,792	-	-	-	(1,472,792)	-	(1,472,792)	
Culture and recreation	248,569	64,484	7,901	-	(176,184)	-	(176,184)	
Health and welfare	1,848	-	-	-	(1,848)	-	(1,848)	
Economic development	67,808	-	-	-	(67,808)	-	(67,808)	
Interest on long-term debt	158,929	-	-	-	(158,929)	-	(158,929)	
Total governmental activities	3,731,499	330,982	171,817	1,650,178	(1,578,522)	-	(1,578,522)	
Business-type activities:								
Water	942,521	825,287	-	-	-	(117,234)	(117,234)	
Sewer	126,239	261,602	-	-	-	135,363	135,363	
Garbage	475,517	435,095	-	-	-	(40,422)	(40,422)	
Water meter	2,802	45,867	-	-	-	43,065	43,065	
Water equipment reserve	134,118	-	-	-	-	(134,118)	(134,118)	
Garbage equipment reserve	5,000	56,435	-	-	-	51,435	51,435	
Total business-type activities	1,686,197	1,624,286	-	-	-	(61,911)	(61,911)	
Total primary government	5,417,696	1,955,268	171,817	1,650,178	(1,578,522)	(61,911)	(1,640,433)	
Component units	316,549	192,231	28,438	-				\$ (95,880)

General revenues:

Taxes:				
Property taxes, levied for general purposes	448,011	-	448,011	81,090
Property taxes, levied for special purposes	552,706	-	552,706	-
Sales taxes	420,072	-	420,072	-
State aid distribution	142,456	-	142,456	16,084
Municipal highway tax	182,309	-	182,309	-
County road and bridge tax	17,214	-	17,214	-
Coal conversion tax	290,786	-	290,786	-
Coal severance tax	671,011	-	671,011	-
Cigarette tax	8,979	-	8,979	-
Investment earnings	5,291	-	5,291	187
Gain (loss) on disposal of fixed assets	3,153	(2,451)	702	-
Transfers	306,492	(306,492)	-	-
Miscellaneous	176,047	-	176,047	4,480
Total general revenues and transfers	3,224,527	(308,943)	2,915,584	101,841
Change in net position	1,646,005	(370,854)	1,275,151	5,961
Net position - beginning of year, originally stated	12,890,832	14,518,893	27,409,725	1,939,270
Prior period adjustment	-	-	-	(7,500)
Net position - beginning of year, restated	12,890,832	14,518,893	27,409,725	1,931,770
Net position - end of year	\$ 14,536,837	\$ 14,148,039	\$ 28,684,876	\$ 1,937,731

See Notes to the Financial Statements

CITY OF BEULAH
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	<u>General Fund</u>	<u>Water Plant Improvements Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,923,292	\$ 673,786	\$ 2,387,318	\$ 4,984,396
Due from other funds	<u>870,207</u>	<u>-</u>	<u>-</u>	<u>870,207</u>
Total assets	<u><u>\$ 2,793,499</u></u>	<u><u>\$ 673,786</u></u>	<u><u>\$ 2,387,318</u></u>	<u><u>\$ 5,854,603</u></u>
<u>FUND BALANCES</u>				
Fund balances:				
Restricted	\$ -	\$ 673,786	\$ 2,387,318	\$ 3,061,104
Unassigned	<u>2,793,499</u>	<u>-</u>	<u>-</u>	<u>2,793,499</u>
Total fund balances	<u><u>\$ 2,793,499</u></u>	<u><u>\$ 673,786</u></u>	<u><u>\$ 2,387,318</u></u>	<u><u>\$ 5,854,603</u></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, 2017

Total Governmental Funds Balance	\$ 5,854,603
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Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	14,615,063
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(5,932,829)</u>
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Net Position of Governmental Activities	<u><u>\$ 14,536,837</u></u>
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See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Water Plant Improvements Fund	Non-major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Taxes	\$ 448,011	\$ -	\$ 552,706	\$ 1,000,717
License and permits	23,347	-	-	23,347
Intergovernmental	1,294,361	1,650,178	610,282	3,554,821
Charges for services	215,973	-	64,358	280,331
Fines and forfeitures	27,178	-	126	27,304
Interest	5,291	-	-	5,291
Miscellaneous	53,315	-	122,733	176,048
Total revenues	<u>2,067,476</u>	<u>1,650,178</u>	<u>1,350,205</u>	<u>5,067,859</u>
<u>EXPENDITURES</u>				
Current:				
General government	741,829	40,544	211,173	993,546
Public safety	788,007	-	-	788,007
Highways and streets	326,329	-	374,915	701,244
Culture and recreation	22,781	-	225,788	248,569
Health and welfare	1,848	-	-	1,848
Economic development	67,808	-	-	67,808
Debt Service:				
Principal retirement	-	-	585,701	585,701
Interest and fiscal charges	-	-	152,599	152,599
Capital outlays	<u>3,156</u>	<u>2,747,357</u>	<u>648,467</u>	<u>3,398,980</u>
Total expenditures	<u>1,951,758</u>	<u>2,787,901</u>	<u>2,198,643</u>	<u>6,938,302</u>
Excess (deficiency) of revenues over (under) expenditures	<u>115,718</u>	<u>(1,137,723)</u>	<u>(848,438)</u>	<u>(1,870,443)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	193,322	90,476	317,901	601,699
Transfers out	(160,077)	-	(67,017)	(227,094)
Proceeds from insurance	-	-	16,150	16,150
Proceeds from issuance of debt	-	880,000	500,771	1,380,771
Total other financing sources and uses	<u>33,245</u>	<u>970,476</u>	<u>767,805</u>	<u>1,771,526</u>
Net change in fund balances	<u>148,963</u>	<u>(167,247)</u>	<u>(80,633)</u>	<u>(98,917)</u>
Fund balances - beginning of year	<u>2,644,536</u>	<u>841,033</u>	<u>2,467,951</u>	<u>5,953,520</u>
Fund balances - end of year	<u>\$ 2,793,499</u>	<u>\$ 673,786</u>	<u>\$ 2,387,318</u>	<u>\$ 5,854,603</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, 2017

Net Change in Fund Balance - Governmental Funds \$ (98,917)

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	3,398,980	
Depreciation expense	(771,548)	
Excess of capital outlay over depreciation expense		2,627,432

A transfer of fixed assets was made from governmental activities to business-type activities which was reported in the Statement of Activities. However, fixed assets and the resulting transfer are not recorded in the governmental funds. (68,113)

The net effect of insurance proceeds received on the loss of capital asset is a decrease in a net position. (12,997)

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. (1,380,771)

Government wide statements amortize discount on bonds payable over the over the life of the debt, while governmental funds recognize bond proceeds at issuance amount. (6,330)

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

Note payable	7,828	
Bonds payable	515,000	
Capital lease	62,873	
Total long-term debt repayment		585,701

Change in Net Position \$ 1,646,005

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2017

	Enterprise Funds		
	Water Fund	Garbage Fund	Total Enterprise Funds
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 956,441	\$ 16,023	\$ 1,843,332
Capital assets:			
Infrastructure	11,768,644	727,732	13,306,356
Equipment	65,050	539,500	699,212
Less: Accumulated depreciation	(416,685)	(179,521)	(669,750)
Total capital assets	11,417,009	1,087,711	13,335,818
Total assets	12,373,450	1,103,734	15,179,150
<u>LIABILITIES</u>			
Current liabilities:			
Due to other funds	-	870,207	870,207
Customer deposits held	6,430	-	6,430
Capital lease - current	-	49,809	49,809
Total current liabilities	6,430	920,016	926,446
Noncurrent liabilities:			
Capital lease - noncurrent	-	104,665	104,665
Total liabilities	6,430	1,024,681	1,031,111
<u>NET POSITION</u>			
Net investment in capital assets	11,417,009	933,237	13,181,344
Unrestricted	950,011	(854,184)	966,695
Total net position	\$ 12,367,020	\$ 79,053	\$ 14,148,039

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds		
	Water Fund	Garbage Fund	Non-major Enterprise Funds
			Total Enterprise Funds
<u>OPERATING REVENUES</u>			
Charges for services	\$ 825,287	\$ 431,062	\$ 363,904
Miscellaneous	-	4,033	-
Total operating revenues	825,287	435,095	363,904
<u>OPERATING EXPENSES</u>			
Salaries and employee benefits	302,520	213,103	23,064
General maintenance and supplies	74,006	100,769	169,470
Chemicals and additives	91,297	-	4,815
Utilities	63,034	2,670	29,880
Fuel and vehicles	5,753	21,924	375
Depreciation	405,911	130,281	40,555
Total operating expenses	942,521	468,747	268,159
Operating income	(117,234)	(33,652)	95,745
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Interest	-	(6,770)	-
Gain (loss) on disposal of fixed assets	(2,451)	-	-
Total nonoperating revenues (expenses)	(2,451)	(6,770)	-
Income (loss) before contributions and transfers	(119,685)	(40,422)	95,745
Transfers in	-	54,969	-
Transfers out	(234,873)	-	(194,701)
Capital contributions	68,113	-	-
Change in net position	(286,445)	14,547	(98,956)
Net position - beginning of year	12,653,465	64,506	1,800,922
Net position - end of year	\$ 12,367,020	\$ 79,053	\$ 1,701,966

See Notes to the Financial Statements

CITY OF BEULAH
STATEMENT OF CASH FLOW – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds			
	Water	Garbage	Non-major enterprise funds	Total
Cash flows from operating activities:				
Receipts from customers	\$ 825,287	\$ 431,062	\$ 363,904	\$ 1,620,253
Receipts from others	-	4,033	-	4,033
Payments to suppliers	(234,090)	(125,363)	(204,540)	(563,993)
Payments to employees	(302,520)	(213,103)	(23,064)	(538,687)
Net cash provided (used) by operating activities	<u>288,677</u>	<u>96,629</u>	<u>136,300</u>	<u>521,606</u>
Cash flows from noncapital and related financing activities:				
Increase (decrease) in due to / due from	-	(80,606)	-	(80,606)
Increase (decrease) in customer deposits	2,200	-	-	2,200
Transfers in (out)	(234,873)	54,969	(194,701)	(374,605)
Net cash provided (used) by noncapital and related financing activities	<u>(232,673)</u>	<u>(25,637)</u>	<u>(194,701)</u>	<u>(453,011)</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(9,754)	-	(39,996)	(49,750)
Payment on capital lease obligations	-	(48,199)	-	(48,199)
Interest paid on capital lease obligations	-	(6,770)	-	(6,770)
Net cash provided (used) by capital and related financing activities	<u>(9,754)</u>	<u>(54,969)</u>	<u>(39,996)</u>	<u>(104,719)</u>
Net change in cash and cash equivalents	46,250	16,023	(98,397)	(36,124)
Cash and cash equivalents - January 1	910,191	-	969,265	1,879,456
Cash and cash equivalents - December 31	<u>\$ 956,441</u>	<u>\$ 16,023</u>	<u>\$ 870,868</u>	<u>\$ 1,843,332</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ (117,234)	\$ (33,652)	\$ 95,745	\$ (55,141)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	405,911	130,281	40,555	576,747
Net cash provided (used) by operating activities	<u>\$ 288,677</u>	<u>\$ 96,629</u>	<u>\$ 136,300</u>	<u>\$ 521,606</u>
Noncash transactions:				
Contributions of capital assets received	<u>\$ 68,113</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
DECEMBER 31, 2017

	Occupancy Tax	Lodging Tax	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 52,255	\$ 128,476	\$ 180,731
	<u> </u>	<u> </u>	<u> </u>
<u>LIABILITIES</u>			
Amounts held in custody of others	\$ 52,255	\$ 128,476	\$ 180,731
	<u> </u>	<u> </u>	<u> </u>

See Notes to the Financial Statements

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 DESCRIPTION OF THE CITY

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Financial Reporting Entity

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

Complete financial statements for the Airport Authority and JDA may be obtained at the City's administrative office. These component units were audited by Brady, Martz and Associates, P.C., for the year ended December 31, 2017, and separate reports were issued.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2017

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 as described above.

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

Proprietary

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

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

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

Measurement Focus and Basis of Accounting

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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 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.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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 its governmental funds on the same basis of accounting.

Cash and Cash Equivalents

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

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

Capital Assets

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

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

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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

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

Long-Term Debt

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

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

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

Equity Classifications

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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.

Fund Financial Statements

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

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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

Government-wide Financial Statements

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

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

Property Taxes

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

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

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

Insurance Recoveries

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

Use of Estimates

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 3 DEPOSITS

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

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

Credit Risk:

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

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

As of December 31, 2017, 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, 2017, 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. \$6,463,451 of the City's deposits are covered by pledged securities held in the City's name. The total securities pledged exceed 110% of the uninsured balance.

Concentration of Credit Risk:

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 4 INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances between primary government funds at December 31, 2017 is:

<u>Fund</u>	<u>Due To</u>	<u>Due From</u>
Governmental Funds		
General Fund	\$ 870,207	\$ -
Proprietary Funds		
Garbage Fund	-	870,207
Total all funds	<u>\$ 870,207</u>	<u>\$ 870,207</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, 2017 was as follows:

	<u>Balance 1/1/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/17</u>
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	\$ 1,181,129	\$ 2,807,561	\$ (569,600)	\$ 3,419,090
Capital assets being depreciated:				
Equipment	1,379,680	40,472	(96,996)	1,323,156
Infrastructure	10,530,030	1,120,547	-	11,650,577
Total capital assets being depreciated	<u>11,909,710</u>	<u>1,161,019</u>	<u>(96,996)</u>	<u>12,973,733</u>
Less accumulated depreciation:				
Equipment	124,408	249,406	(15,885)	357,929
Infrastructure	897,689	522,142	-	1,419,831
Total accumulated depreciation	<u>1,022,097</u>	<u>771,548</u>	<u>(15,885)</u>	<u>1,777,760</u>
Total capital assets being depreciated, net	<u>10,887,613</u>	<u>389,471</u>	<u>(81,111)</u>	<u>11,195,973</u>
Net capital assets	<u>\$ 12,068,742</u>	<u>\$ 3,197,032</u>	<u>\$ (650,711)</u>	<u>\$ 14,615,063</u>

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

Business type activities

Capital assets being depreciated:

Equipment	\$ 621,424	\$ 80,852	\$ (3,064)	\$ 699,212
Infrastructure	13,269,345	37,011	-	13,306,356
Total capital assets being depreciated	<u>13,890,769</u>	<u>117,863</u>	<u>(3,064)</u>	<u>14,005,568</u>

Less accumulated depreciation:

Equipment	69,007	132,375	(613)	200,769
Infrastructure	24,609	444,372	-	468,981
Total accumulated depreciation	<u>93,616</u>	<u>576,747</u>	<u>(613)</u>	<u>669,750</u>

Net capital assets

	<u>\$ 13,797,153</u>	<u>\$ (458,884)</u>	<u>\$ (2,451)</u>	<u>\$ 13,335,818</u>
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Component units *

Capital assets not being depreciated:

Construction in progress	\$ 4,400	\$ 144,092	\$ (4,400)	\$ 144,092
Land	10,000	-	-	10,000

Capital assets being depreciated:

Equipment	26,065	71,366	-	97,431
Buildings	1,794,135	-	-	1,794,135
Building improvements	-	15,000	-	15,000
Infrastructure	1,138,291	-	-	1,138,291
Total capital assets being depreciated	<u>2,958,491</u>	<u>86,366</u>	<u>-</u>	<u>3,044,857</u>

Less accumulated depreciation:

Equipment	26,065	7,726	-	33,791
Buildings	381,131	36,719	-	417,850
Building improvements	-	250	-	250
Infrastructure	496,592	45,910	-	542,502
Total accumulated depreciation	<u>903,788</u>	<u>90,605</u>	<u>-</u>	<u>994,393</u>

Total capital assets being depreciated, net

	<u>2,054,703</u>	<u>(4,239)</u>	<u>-</u>	<u>2,050,464</u>
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Net capital assets

	<u>\$ 2,059,103</u>	<u>\$ 139,853</u>	<u>\$ (4,400)</u>	<u>\$ 2,204,556</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, 2017, the Housing Authority balances include:

Buildings	\$550,000
Accumulated depreciation – buildings	170,000
Depreciation expense	20,000

Depreciation expense for the governmental activities of \$771,548 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, 2017.

Equipment	\$ 257,642
Accumulated amortization	<u>(81,587)</u>
Total	<u>\$ 176,055</u>

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2017:

	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Due Within One Year
Governmental activities					
Note payable	\$ -	\$ 30,334	\$ (7,828)	\$ 22,506	\$ 7,192
Capital lease	1,141,620	-	(62,874)	1,078,746	66,264
Special assessments	3,530,000	-	(470,000)	3,060,000	465,000
Revenue bonds payable	507,460	1,350,437	(45,000)	1,812,897	85,893
Bond discount	(47,650)	-	6,330	(41,320)	-
Total	<u>\$ 5,131,430</u>	<u>\$ 1,380,771</u>	<u>\$ (579,372)</u>	<u>\$ 5,932,829</u>	<u>\$ 624,349</u>
Business type activities					
Capital lease	<u>\$ 202,673</u>	<u>\$ -</u>	<u>\$ (48,199)</u>	<u>\$ 154,474</u>	<u>\$ 49,809</u>
Component units *					
Notes payable	\$ 200,721	\$ -	\$ (13,621)	\$ 187,100	\$ 13,485
Revenue bonds payable	489,308	-	(9,435)	479,873	9,868
Total	<u>\$ 690,029</u>	<u>\$ -</u>	<u>\$ (23,056)</u>	<u>\$ 666,973</u>	<u>\$ 23,353</u>

* The component units include the Housing Authority which was unaudited. See the Independent Auditor's report for more information. As of December 31, 2017, the Housing Authority balances include:

Revenue bonds payable	\$479,873
Payments made on bonds	(9,435)
Due within one year	9,868

Long term debt at December 31, 2017 consists of the following individual issues:

Governmental activities:

Balance
12/31/17

Note payable:

Note payable dated September 15, 2017. Payable in annual installments of \$8,149 beginning December 15, 2017, including interest at 4.25% through December 15, 2020. Paid by the Equipment Service Fund. Secured by police vehicle.

\$ 22,506

Capital lease:

Capital lease for acquisition of pool. Payable in semi-annual installments of \$61,414, beginning February 1, 2010, including interest at 5.25% through August 1, 2029. Paid by the Swimming Pool fund.

1,078,746

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

	Balance 12/31/17
<u>Special assessments:</u>	
\$3,600,000 Refunding Improvement Bonds of 2011 (Street Improvement District #22) - due in annual principal installments of \$320,000 to \$395,000 through May 1, 2021; semi-annual interest payments with interest rates of .60% to 2.950% (less discount of \$16,500 as of December 31, 2017). Paid by the Special Assessment #22 fund.	<u>\$ 1,383,500</u>
\$800,000 Refunding Improvement Bonds of 2015 (Street Improvement District #23) - due in annual principal installments of \$50,000 to \$55,000 through May 1, 2030; semi-annual interest payments with interest rates of 1.50% to 3.50% (less discount of \$10,400 as of December 31, 2017). Paid by the Street Improvement District #23 fund.	679,600
\$1,030,000 Refunding Improvement Bonds of 2016 (Street Improvement District #24; Street Improvement District #25) - due in annual principal installments of \$60,000 to \$80,000 through May 1, 2031; semi-annual interest payments with interest rates of 1.50% to 3.15% (less discount of \$14,420 as of December 31, 2017). Paid by the Street Improvement District #24 and Street Improvement District #25 funds.	<u>955,580</u>
Total special assessments	<u>3,018,680</u>
<u>Revenue bonds payable:</u>	
\$586,800 Revenue Bonds of 2014 (Sewer Project) - due in annual principal installments of \$25,000 to \$40,000 through September 1, 2033; semi-annual interest payments with interest rate of 2.00%. Paid by the South Lagoon Revenue Bond fund.	511,800
\$480,000 Revenue Bonds of 2017 (Water Meter Project), \$441,097 issued as of December 31, 2017 - due in annual principal installments of \$20,000 to \$30,000 through September 1, 2037; semi-annual interest payments with interest rate of 1.50%. Paid by the Water Meter Project fund.	421,097
\$880,000 Revenue Bonds of 2017 (Water Plant Project) - due in annual installments of \$51,193 beginning May 1, 2018, including interest at 1.50% through May 1, 2037. Paid by the Water Plant Improvements fund.	<u>880,000</u>
Total revenue bonds payable	<u>1,812,897</u>
Total long term debt - Governmental activities	<u><u>\$ 5,932,829</u></u>

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, 2017

Business-type activities: Balance
12/31/17

Capital lease:

Capital lease for acquisition of garbage truck. Payable in annual installments of \$54,969, beginning June 15, 2016, including interest at 3.34% through June 15, 2020. Paid by the Garbage fund. \$ 154,474

Component units:

Notes payable:

\$111,300 Note payable - due in monthly payments of \$787 through June 2027; interest rate of 5.75% \$ 69,007

\$187,000 Note payable - due in monthly payments of \$1,257 through June 2028; interest rate of 5.75%. 118,093

Total notes payable 187,100

Revenue bonds payable:

\$550,000 Revenue Bonds of 2008 - due in monthly installments of \$2,605 through February 1, 2044; interest rate of 4.50%. (Housing Authority - unaudited) 479,873

Total long term debt - Component units \$ 666,973

The future expected requirements to amortize long-term debt, including interest, as of December 31, 2017 are as follows:

Governmental activities

	Notes Payable		Capital Leases		Special Assessments	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	7,192	957	\$ 66,264	\$ 56,564	\$ 465,000	\$ 75,378
2019	7,498	651	69,838	52,990	470,000	65,391
2020	7,816	333	73,473	49,355	470,000	54,129
2021	-	-	77,568	45,260	470,000	41,462
2022	-	-	81,752	41,076	120,000	33,267
2023 - 2027	-	-	479,757	134,383	610,000	117,714
2028 - 2032	-	-	230,094	15,563	455,000	27,641
2033 - 2037	-	-	-	-	-	-
Bond discount	-	-	-	-	(41,320)	41,320
	<u>\$ 22,506</u>	<u>\$ 1,941</u>	<u>\$ 1,078,746</u>	<u>\$ 395,191</u>	<u>\$ 3,018,680</u>	<u>\$ 456,302</u>

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

	Revenue Bonds Payable		Total	
	Principal	Interest	Principal	Interest
2018	\$ 85,893	\$ 29,451	\$ 624,349	\$ 162,350
2019	83,580	29,214	630,916	148,246
2020	89,158	27,835	640,447	131,652
2021	89,746	26,348	637,314	113,070
2022	90,342	24,851	292,094	99,194
2023 - 2027	485,970	101,272	1,575,727	353,369
2028 - 2032	527,273	59,317	1,212,367	102,521
2033 - 2037	360,935	17,103	360,935	17,103
Bond discount	-	-	(41,320)	41,320
	<u>\$ 1,812,897</u>	<u>\$ 315,391</u>	<u>\$ 5,932,829</u>	<u>\$ 1,168,825</u>

Business-type activities

	Capital Leases	
	Principal	Interest
2018	\$ 49,809	\$ 5,160
2019	51,473	3,496
2020	53,192	1,777
	<u>\$ 154,474</u>	<u>\$ 10,433</u>

Component units *

	Notes Payable		Revenue Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 13,485	\$ 9,790	\$ 9,868	\$ 21,392	\$ 23,353	\$ 31,182
2019	14,940	9,592	10,322	20,938	25,262	30,530
2020	15,806	8,727	10,738	20,522	26,544	29,249
2021	16,755	7,777	11,289	19,971	28,044	27,748
2022	17,745	6,788	11,808	19,452	29,553	26,240
2023 - 2027	100,949	169,999	67,631	88,669	168,580	258,668
2028 - 2032	7,419	125	84,630	71,670	92,049	71,795
2033 - 2037	-	-	106,002	50,298	106,002	50,298
2038 - 2042	-	-	132,705	23,595	132,705	23,595
2043 - 2047	-	-	34,880	974	34,880	974
	<u>\$ 187,099</u>	<u>\$ 212,798</u>	<u>\$ 479,873</u>	<u>\$ 337,481</u>	<u>\$ 666,972</u>	<u>\$ 550,279</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 RISK MANAGEMENT

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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

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

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

NOTE 8 PENSION PLAN

The City sponsors a defined contributions pension plan administered by Mainstay through New York Life. The plan and contribution requirements were established and may be amended by the City Council. The plan covers substantially all full-time permanent employees. This plan requires employer contributions of 8% of each participating employee's gross wage. City contributions to the retirement program amounted to \$84,144 in 2017, \$81,286 in 2016, and \$71,561 in 2015. The plan does not include provisions for employee contributions. The City's policy is to fund all pension costs accrued. Since the pension plan is a "money purchase plan," actuarially computed vested benefits do not exceed the pension plan.

NOTE 9 CONCENTRATIONS OF CREDIT RISK

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

NOTE 10 FUND BALANCE/NET POSITION

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	General Fund	Water Plant Improvements Fund	Non-major Governmental Funds	Total
Restricted for:				
City Improvements	\$ -	\$ 673,786	\$ 1,364,715	\$ 2,038,501
Roads	-	-	378,421	378,421
Retirement	-	-	74,273	74,273
Library	-	-	78,725	78,725
Emergency	-	-	183,135	183,135
Cemetery	-	-	78,866	78,866
Swimming Pool	-	-	229,183	229,183
Unassigned	2,793,499	-	-	2,793,499
	<u>\$ 2,793,499</u>	<u>\$ 673,786</u>	<u>\$ 2,387,318</u>	<u>\$ 5,854,603</u>

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 11 LEGAL COMPLIANCE (BUDGETS)

The City's governing board amended the budgets during the year ended December 31, 2017. 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, 2017.

Water Meter Project – fund 3141	\$463,313
Street Improvement District #25 – fund 3125	52,303
South Lagoon Revenue Bonds – fund 3130	23,667
Pension Plan Clearing – fund 2105	13,267
Street Improvement District #23 – fund 3123	4,711
Emergency – fund 2060	2,569

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

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, 2017:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General	\$ 193,322	\$ 160,077
Water Plant Improvement	90,476	-
Non-major	317,901	67,017
Proprietary Funds:		
Water	-	234,873
Garbage	54,969	-
Non-major	-	194,701
	<u>\$ 656,668</u>	<u>\$ 656,668</u>

NOTE 13 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was posted to the December 31, 2016 financial statements to properly dispose of land which the Job Development Authority no longer owned. This adjustment resulted in a decrease to component unit net position of \$7,500. This adjustment had no effect on opening fund balance.

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS

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. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

CITY OF BEULAH
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

NOTE 15 COMMITMENTS

The City has Water Treatment Plant upgrades in progress as of December 31, 2017. This project has an expected total cost of \$5,622,000 and has a remaining estimated cost to complete of \$2,268,000. As of December 31, 2017, the City has paid \$3,354,000. The City expects to receive funding of approximately \$749,000 from the state of North Dakota in 2018. A loan will support the remainder of the expenditure.

The City has the development of a comprehensive land use plan in progress as of December 31, 2017. This project has an expected total cost of \$50,640. No payments were made during the year ended December 31, 2017. The project is expected to be completed during 2018 with payments to be made out of the City Sales Tax fund.

The City's other commitments include a pledge to the Sakakawea Medical Center Foundation. The pledge was for \$100,000 to be paid in equal annual installments over five years. During the year ended December 31, 2017, a \$20,000 installment was made. The remaining amount of the pledge is \$40,000, to be paid out of the general fund.

NOTE 16 SUBSEQUENT EVENTS

The City received proceeds of \$53,230 in January 2018 from the sale of a building.

In May 2018, the City entered into commitments for the removal of lime sludge in the lagoon. The project has an estimated total cost of \$345,000.

In June 2018, the City issued Special Revenue Bonds for \$345,000. Payments of principal and interest begin September 2018 and go through September 2048. Annual principal payments vary from \$8,000 to \$15,000 each year with semi-annual interest payments of 0.75%.

Subsequent events have been evaluated through June 28, 2018, which is the date these financial statements were available to be issued.

CITY OF BEULAH
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes	\$ 416,000	\$ 416,000	\$ 448,011	\$ 32,011
Licenses and permits	27,100	27,100	23,347	(3,753)
Intergovernmental	1,024,500	1,024,500	1,294,361	269,861
Charges for services	161,520	161,520	215,973	54,453
Fines and forfeits	25,000	25,000	27,178	2,178
Interest	5,000	5,000	5,291	291
Miscellaneous	91,200	91,200	53,315	(37,885)
Total revenues	<u>1,750,320</u>	<u>1,750,320</u>	<u>2,067,476</u>	<u>317,156</u>
EXPENDITURES				
Current:				
General government	932,453	907,453	741,829	165,624
Public safety	751,675	751,675	788,007	(36,332)
Highways and streets	345,530	335,530	326,329	9,201
Culture and recreation	27,500	26,000	22,781	3,219
Health and welfare	3,500	3,500	1,848	1,652
Economic development	66,620	66,620	67,808	(1,188)
Capital outlays	-	-	3,156	(3,156)
Total expenditures	<u>2,127,278</u>	<u>2,090,778</u>	<u>1,951,758</u>	<u>139,020</u>
Excess (deficiency) of revenues over expenditures	<u>(376,958)</u>	<u>(340,458)</u>	<u>115,718</u>	<u>456,176</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	213,000	213,000	193,322	(19,678)
Transfers out	-	-	(160,077)	(160,077)
Total other financing sources (uses)	<u>213,000</u>	<u>213,000</u>	<u>33,245</u>	<u>(179,755)</u>
Net change in fund balances	<u>\$ (163,958)</u>	<u>\$ (127,458)</u>	<u>148,963</u>	<u>\$ 276,421</u>
Fund balance - beginning of year			<u>2,644,536</u>	
Fund balance - end of year			<u>\$ 2,793,499</u>	

CITY OF BEULAH
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
WATER PLANT IMPROVEMENTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental	<u>\$ 3,440,000</u>	<u>\$ 3,440,000</u>	<u>\$ 1,650,178</u>	<u>\$ (1,789,822)</u>
EXPENDITURES				
Current:				
General government	3,442,400	3,442,400	40,544	3,401,856
Debt service:				
Principal retirement	103,600	103,600	-	103,600
Interest and other charges	36,800	36,800	-	36,800
Capital outlays	<u>-</u>	<u>-</u>	<u>2,747,357</u>	<u>(2,747,357)</u>
Total expenditures	<u>3,582,800</u>	<u>3,582,800</u>	<u>2,787,901</u>	<u>794,899</u>
Excess (deficiency) of revenues over expenditures	<u>(142,800)</u>	<u>(142,800)</u>	<u>(1,137,723)</u>	<u>(994,923)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	90,476	90,476
Proceeds from issuance of debt	<u>142,800</u>	<u>142,800</u>	<u>880,000</u>	<u>737,200</u>
Total other financing sources (uses)	<u>142,800</u>	<u>142,800</u>	<u>970,476</u>	<u>827,676</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(167,247)</u>	<u>\$ (167,247)</u>
Fund balance - beginning of year			<u>841,033</u>	
Fund balance - end of year			<u>\$ 673,786</u>	

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

To the City Council
City of Beulah, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units (except the Housing Authority), each major fund, and the aggregate remaining fund information of the City of Beulah, North Dakota, as of and for the year ended December 31, 2017, 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 June 28, 2018. 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 2017-001 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 2017-002 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.



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

June 28, 2018

CITY OF BEULAH
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

2017-001: 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, 2017

2017-002: 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.