

AUDIT REPORT

**CITY OF CENTER
Center, North Dakota**

For the Year Ended December 31, 2017

**RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF CENTER
Center, North Dakota

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CITY OF CENTER
Center, North Dakota

CITY OFFICIALS

Harold Wilkens	Mayor
JD Hanson	Council Member
Kevin Hoffman	Council Member
Dallas Morast	Council Member
Mike Schutt	Council Member
Terrie Nehring	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Center
Center, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; 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 judgement, 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 city'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 city's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Center, Center, 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 described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions 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 management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2018 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.


Rath and Mehrer, P.C.

Bismarck, North Dakota

July 6, 2018

CITY OF CENTER

Management's Discussion and Analysis

December 31, 2017

The Management's Discussion and Analysis (MD&A) of the City of Center's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2017. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2017 are as follows:

- * Total net position of the city increased \$45,515 as a result of the current year's operations. Net position of the governmental activities increased \$45,944 and net position of the business-type activities decreased \$429.
- * Governmental net position totaled \$1,199,680 and business-type net position totaled \$871,283.
- * Total revenues from all sources were \$1,042,874 for governmental activities and \$245,272 for business-type activities.
- * Total expenses were \$996,930 for governmental activities and \$245,701 for business-type activities.
- * The city's general fund had \$942,692 in total revenues and \$815,963 in total expenditures. Overall, the general fund balance increased by \$126,729 for the year ended December 31, 2017.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- * Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- * Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2017?."

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, and culture and recreation. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund and street fund are considered "major governmental funds". The city's water fund is considered a "major enterprise fund".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Fund" and "Other Enterprise Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2017. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position increased by \$45,515 for the year ended December 31, 2017. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2017, the city's net position of \$2,070,962 is segregated into three separate categories. Net investment in capital assets represents 56% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 11% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 33% of the city's net position and is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	436,024	475,320
Capital Assets (net of accumulated depreciation)	1,757,064	565,963
Total Assets	<u>2,193,088</u>	<u>1,041,283</u>
<u>Liabilities</u>		
Current Liabilities	85,150	20,000
Long-Term Liabilities	908,259	150,000
Total Liabilities	<u>993,409</u>	<u>170,000</u>
<u>Net Position</u>		
Net Investment in Capital Assets	763,655	395,963
Restricted	226,856	
Unrestricted	209,168	475,320
Total Net Position	<u>1,199,680</u> =====	<u>871,283</u> =====

Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	425,616	471,974
Capital Assets (net of accumulated depreciation)	1,803,549	589,738
Total Assets	2,229,165	1,061,712
<u>Liabilities</u>		
Current Liabilities	82,021	20,000
Long-Term Liabilities	993,409	170,000
Total Liabilities	1,075,430	190,000
<u>Net Position</u>		
Net Investment in Capital Assets	728,119	399,738
Restricted	343,194	
Unrestricted	82,423	471,974
Total Net Position	1,153,735	871,712

Table II shows the changes in net position for the fiscal year ended December 31, 2017. A comparative analysis of city-wide data is presented for both current and prior year.

Table II

Changes in Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	66,496	245,267
Operating Grants and Contributions	100,164	
<u>General Revenues:</u>		
Property Taxes	93,824	
Other Taxes	681,410	
Intergovernmental - Unrestricted	38,227	
Interest Earnings and Other Revenue	62,753	5
Total Revenues	1,042,874	245,272
<u>Expenses</u>		
General Government	397,035	
Public Safety	146,240	
Streets and Public Works	234,053	
Culture and Recreation	179,321	
Other	1,352	
Interest on Long-Term Debt	38,928	
Water		169,053
Sewer		23,362
Garbage		53,286
Total Expenses	996,930	245,701
Net Change in Position	45,944	(429)

Property taxes constituted 7%, other taxes 53%, unrestricted intergovernmental 3%, operating grants and contributions 8%, and charges for services made up 24% of the total revenues of all activities of the city for the fiscal year ended December 31, 2017.

General government constituted 32%, public safety 12%, streets and public works 19%, and enterprise 20% of total expenses for all activities during the fiscal year ended December 31, 2017.

Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	67,809	261,450
Operating Grants and Contributions	128,463	
<u>General Revenues:</u>		
Property Taxes	79,338	
Other Taxes	671,321	
Intergovernmental - Unrestricted	43,194	
Interest Earnings and Other Revenue	19,377	5
Total Revenues	<u>1,009,502</u>	<u>261,454</u>
Expenses		
General Government	369,195	
Public Safety	124,662	
Streets and Public Works	101,931	
Urban and Economic Development	400	
Culture and Recreation	215,914	
Other	6,474	
Interest on Long-Term Debt	41,943	
Water		145,373
Sewer		20,791
Garbage		50,963
Total Expenses	<u>860,520</u>	<u>217,126</u>
Net Change in Position Before Transfers	<u>148,983</u>	<u>44,328</u>
Transfers	<u>(23,438)</u>	<u>23,438</u>
Net Change in Position	<u>125,545</u> =====	<u>67,766</u> =====

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services
As of December 31, 2017

	Total Cost Year Ended <u>Dec. 31, 2017</u>	Net Cost Year Ended <u>Dec. 31, 2017</u>
General Government	397,035	383,089
Public Safety	146,240	137,343
Streets and Public Works	234,053	133,889
Culture and Recreation	179,321	135,668
Other	1,352	1,352
Interest on Long-Term Debt	38,928	38,928
	<hr/>	<hr/>
Total Expenses	996,930	830,269
	=====	=====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$1,042,874 and expenditures of \$1,032,465 for the year ended December 31, 2017. As of December 31, 2017, the unassigned fund balance of the city's general fund was \$166,741.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2017, the city did not amend the general fund budget.

Actual revenue for the year ended December 31, 2017 was \$257,207 more than budgeted. This variance was mainly due to the city underestimating sales tax collections. Actual expenditures for the year ended December 31, 2017 were over budget by \$25,478.

CAPITAL ASSETS

As of December 31, 2017, the city had \$2,323,027 invested in capital assets. The following tables show the balances as of December 31, 2017 and 2016.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	1,695,992	565,963
Machinery and Vehicles	61,072	
Total (net of depreciation)	<u>1,757,064</u> =====	<u>565,963</u> =====

This total represents a decrease of \$70,260 in capital assets from January 1, 2017.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	1,727,848	589,738
Machinery and Vehicles	75,701	
Total (net of depreciation)	<u>1,803,549</u> =====	<u>589,738</u> =====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2017, the city had \$1,163,409 in outstanding debt of which \$105,150 was due within one year.

During fiscal year 2017, the city issued no new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 5 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Terrie Nehring, City Auditor, Center, ND.

CITY OF CENTER
Center, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	436,024.46	475,319.81	911,344.27
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	1,695,992.00	565,963.00	2,261,955.00
Machinery and Vehicles	61,072.00		61,072.00
Total Capital Assets	1,757,064.00	565,963.00	2,323,027.00
Total Assets	2,193,088.46	1,041,282.81	3,234,371.27
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Coal Trust Fund Loan Payable	85,150.01		85,150.01
Revenue Bonds Payable		20,000.00	20,000.00
Due After One Year:			
Coal Trust Fund Loan Payable	908,258.95		908,258.95
Revenue Bonds Payable		150,000.00	150,000.00
Total Liabilities	993,408.96	170,000.00	1,163,408.96
NET POSITION:			
Net Investment in Capital Assets	763,655.04	395,963.00	1,159,618.04
Restricted for:			
Special Purposes	226,856.07		226,856.07
Unrestricted	209,168.39	475,319.81	684,488.20
Total Net Position	1,199,679.50	871,282.81	2,070,962.31

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

CITY OF CENTER
Center, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2017

	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Functions/Programs</u>					
Primary Government:					
<u>Governmental Activities:</u>					
General Government	397,034.82	13,945.87		(383,088.95)	(383,088.95)
Public Safety	146,239.99	8,897.07		(137,342.92)	(137,342.92)
Streets and Public Works	234,053.01		100,164.46	(133,888.55)	(133,888.55)
Culture and Recreation	179,321.33	43,652.90		(135,668.43)	(135,668.43)
Other	1,351.97			(1,351.97)	(1,351.97)
Interest on Long-Term Debt	38,928.40			(38,928.40)	(38,928.40)
Total Governmental Activities	996,929.52	66,495.84	100,164.46	(830,269.22)	(830,269.22)
<u>Business-Type Activities:</u>					
Water	169,052.67	142,212.71		(26,839.96)	(26,839.96)
Sewer	23,361.67	48,631.26		25,269.59	25,269.59
Garbage	53,286.42	54,423.11		1,136.69	1,136.69
Total Business-Type Activities	245,700.76	245,267.08		(433.68)	(433.68)
Total Primary Government	1,242,630.28	311,762.92	100,164.46	(830,269.22)	(433.68)
=====					
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes				93,823.77	93,823.77
Sales taxes				199,328.59	199,328.59
Cigarette taxes				1,642.76	1,642.76
Coal severance taxes				365,880.93	365,880.93
Coal conversion taxes				114,557.75	114,557.75
Intergovernmental revenue not restricted to specific programs				38,226.55	38,226.55
Earnings on investments and other revenue				62,753.01	4.68
Total General Revenues				876,213.36	4.68
Change in Net Position				45,944.14	(429.00)
Net Position - January 1				1,153,735.36	871,711.81
Net Position - December 31				1,199,679.50	871,282.81
=====					

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

CITY OF CENTER
Center, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2017

	Major Funds			
	General	Street	Other Governmental Fund	Total Governmental Funds
ASSETS:				
Cash, Cash Equivalents and Investments	166,741.13	226,856.07	42,427.26	436,024.46
FUND BALANCES:				
Restricted for:				
Streets and Public Works		226,856.07		226,856.07
Assigned to:				
Street Repairs			42,427.26	42,427.26
Unassigned	166,741.13			166,741.13
Total Fund Balances	166,741.13	226,856.07	42,427.26	436,024.46

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

CITY OF CENTER
Center, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2017

Total Fund Balances for Governmental Funds		436,024.46
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	2,690,755.00	
Less Accumulated Depreciation	(933,691.00)	
Net Capital Assets	<hr/>	1,757,064.00
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2017 are:		
Coal Trust Fund Loan Payable		(993,408.96)
Total Net Position of Governmental Activities		<hr/> <u>1,199,679.50</u> =====

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

CITY OF CENTER
Center, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2017

	Major Funds			Total Governmental Funds
	General	Street	Other Governmental Fund	
<u>Revenues:</u>				
Taxes	293,152.36			293,152.36
Licenses, Permits and Fees	7,428.87			7,428.87
Intergovernmental	520,307.99	100,164.46		620,472.45
Charges for Services	59,066.97			59,066.97
Miscellaneous	62,736.10		16.91	62,753.01
Total Revenues	942,692.29	100,164.46	16.91	1,042,873.66
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	368,100.82			368,100.82
Public Safety	146,239.99			146,239.99
Streets and Public Works		216,502.01		216,502.01
Culture and Recreation	179,321.33			179,321.33
Other	1,351.97			1,351.97
<u>Debt Service:</u>				
Principal	82,020.80			82,020.80
Interest	38,928.40			38,928.40
Total Expenditures	815,963.31	216,502.01		1,032,465.32
Net Change in Fund Balances	126,728.98	(116,337.55)	16.91	10,408.34
Fund Balance - January 1	40,012.15	343,193.62	42,410.35	425,616.12
Fund Balance - December 31	166,741.13	226,856.07	42,427.26	436,024.46

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

CITY OF CENTER
Center, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds	10,408.34
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(46,485.00)	(46,485.00)

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

Debt Proceeds	0.00	
Repayment of Debt	82,020.80	82,020.80

Change in Net Position of Governmental Activities	45,944.14
	45,944.14

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

CITY OF CENTER
Center, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2017

	Major Enterprise Fund	Other Enterprise Funds	Total Enterprise Funds
	Water		
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and Cash Equivalents	265,312.18	210,007.63	475,319.81
<u>Noncurrent Assets:</u>			
Capital Assets (net of accumulated depr):			
Buildings and Infrastructure	565,963.00		565,963.00
Total Assets	831,275.18	210,007.63	1,041,282.81
=====			
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Revenue Bonds Payable	20,000.00		20,000.00
<u>Noncurrent Liabilities:</u>			
Revenue Bonds Payable	150,000.00		150,000.00
Total Liabilities	170,000.00		170,000.00
<u>NET POSITION</u>			
Net Investment in Capital Assets	395,963.00		395,963.00
Unrestricted	265,312.18	210,007.63	475,319.81
Total Net Position	661,275.18	210,007.63	871,282.81
=====			

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

CITY OF CENTER
Center, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2017

	Major Enterprise Fund		
	Water	Other Enterprise Funds	Total Enterprise Funds
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Water Charges	142,212.71		142,212.71
Sewer Charges		48,631.26	48,631.26
Garbage Charges		54,423.11	54,423.11
Total Operating Revenues	142,212.71	103,054.37	245,267.08
<u>Operating Expenses:</u>			
Water Operating	139,577.67		139,577.67
Sewer Operating		23,361.67	23,361.67
Garbage Operating		53,286.42	53,286.42
Depreciation	23,775.00		23,775.00
Total Operating Expenses	163,352.67	76,648.09	240,000.76
Operating Income (Loss)	(21,139.96)	26,406.28	5,266.32
<u>Non-Operating Revenues (Expenses):</u>			
Interest Income	4.68		4.68
Debt Service - Interest	(4,750.00)		(4,750.00)
- Service Charges	(950.00)		(950.00)
Total Non-Operating Revenues (Expenses)	(5,695.32)		(5,695.32)
Change in Net Position	(26,835.28)	26,406.28	(429.00)
Net Position - January 1	688,110.46	183,601.35	871,711.81
Net Position - December 31	661,275.18	210,007.63	871,282.81

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

CITY OF CENTER
Center, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2017

	Major Enterprise Fund		Total Enterprise Funds
	Water	Other Enterprise Funds	
<u>Cash flows from operating activities:</u>			
Receipts from customers	142,212.71	103,054.37	245,267.08
Payments to suppliers and employees	(139,577.67)	(76,648.09)	(216,225.76)
Net cash provided (used) by operating activities	2,635.04	26,406.28	29,041.32
<u>Cash flows from capital and related financing activities:</u>			
Principal payments on revenue bonds	(20,000.00)		(20,000.00)
Interest payments on revenue bonds	(4,750.00)		(4,750.00)
Service charges on revenue bonds	(950.00)		(950.00)
Net cash provided (used) by capital and related financing activities	(25,700.00)		(25,700.00)
<u>Cash flows from investing activities:</u>			
Interest income	4.68		4.68
Net increase in cash and cash equivalents	(23,060.28)	26,406.28	3,346.00
Cash and cash equivalents, January 1	288,372.46	183,601.35	471,973.81
Cash and cash equivalents, December 31	265,312.18	210,007.63	475,319.81
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>			
Operating income (loss)	(21,139.96)	26,406.28	5,266.32
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	23,775.00		23,775.00
Net cash provided (used) by operating activities	2,635.04	26,406.28	29,041.32

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

CITY OF CENTER
Center, North Dakota

Notes to the Financial Statements
December 31, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, there are no component units to be included within the City of Center as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of Center. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The city reports the following major governmental funds:

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

Street Fund. This fund accounts for the state highway tax distribution used for street repairs and maintenance.

The city reports the following major enterprise funds:

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings and Infrastructure	40 to 75 years
Machinery and Vehicles	7 to 20 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Long-Term Obligations

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

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

H. Fund Equity

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

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

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

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

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

I. Interfund Transactions

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

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

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

J. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2017 the city's carrying amount of deposits was \$911,344 and the bank balance was \$928,752. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$678,752 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2017 the city held certificates of deposit in the amount of \$324,841, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2017:

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	2,269,560			2,269,560
Machinery and Vehicles	426,395		5,200	421,195
Total	<u>2,695,955</u>		<u>5,200</u>	<u>2,690,755</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	541,712	31,856		573,568
Machinery and Vehicles	350,694	14,629	5,200	360,123
Total	<u>892,406</u>	<u>46,485</u>	<u>5,200</u>	<u>933,691</u>
Governmental Activities				
Capital Assets, Net	<u>1,803,549</u>	<u>(46,485)</u>	<u>-0-</u>	<u>1,757,064</u>
	=====	=====	=====	=====
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	1,224,540			1,224,540
Machinery and Vehicles	8,250			8,250
Total	<u>1,232,790</u>			<u>1,232,790</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	634,802	23,775		658,577
Machinery and Vehicles	8,250			8,250
Total	<u>643,052</u>	<u>23,775</u>		<u>666,827</u>
Business-type Activities				
Capital Assets, Net	<u>589,738</u>	<u>(23,775)</u>	<u>-0-</u>	<u>565,963</u>
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the city as follows for the year ended December 31, 2017:

<u>Governmental Activities:</u>	
General Government	28,934
Streets and Public Works	17,551
	<hr/>
Total	46,485
	<hr/>
 <u>Business-type Activities:</u>	
Water	23,775
	<hr/>

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2017, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Coal Trust Fund Loan	1,075,430	-0-	82,021	993,409	85,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Business-type Activities (Proprietary Funds)

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	190,000	-0-	20,000	170,000	20,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Outstanding debt at December 31, 2017 consists of the following:

Governmental Activities

Coal Trust Fund Loan. The city has taken out a coal trust fund loan to provide funds for site grading, streets, water distribution and sanitary sewer improvements. Payments are withheld monthly from the city's coal severance payment. Should coal severance payments to the city be discontinued before the loan is repaid, the loan would be forgiven as provided in NDCC 57-62-03. Coal trust fund loan outstanding at December 31, 2017 is as follows:

\$1,700,000.00 loan due in monthly installments of \$10,079.10 through September, 2027; interest is at 3.75%.	993,408.96
	<hr/>

The annual requirements to amortize the outstanding coal trust loan are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	85,150.01	35,799.19
2019	88,398.58	32,550.62
2020	91,771.11	29,178.09
2021	95,272.29	25,676.91
2022	98,907.05	22,042.15
2023-2027	533,909.92	50,677.88
Total	<u>993,408.96</u>	<u>195,924.84</u>
	=====	=====

Business-Type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2017 are as follows:

\$358,800 Water Revenue Bonds of 2006, due in annual installments of \$20,000 to \$25,000 through September 1, 2025; interest is at 2.5%.	170,000.00
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	20,000.00	4,250.00
2019	20,000.00	3,750.00
2020	20,000.00	3,250.00
2021	20,000.00	2,750.00
2022	20,000.00	2,250.00
2023-2025	70,000.00	3,375.00
Total	<u>170,000.00</u>	<u>19,625.00</u>
	=====	=====

Note 6 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$567,632 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$500,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 7 PENSION PLAN

The city is a participant in a retirement plan with Mass Mutual Retirement Services. The city contributed 17% of the employee's gross wages for the year ended December 31, 2017. City contributions for the year ended December 31, 2017 were \$28,003.43. The plan is a defined contribution plan with the pension system responsible for benefits. Therefore, the city is only responsible for current contributions.

CITY OF CENTER
Center, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	180,008.62	180,008.62	293,152.36	113,143.74
Licenses, Permits and Fees	8,625.00	8,625.00	7,428.87	(1,196.13)
Intergovernmental	453,061.21	453,061.21	520,307.99	67,246.78
Charges for Services	26,840.00	26,840.00	59,066.97	32,226.97
Miscellaneous	16,950.00	16,950.00	62,736.10	45,786.10
Total Revenues	685,484.83	685,484.83	942,692.29	257,207.46
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	289,686.01	289,686.01	368,100.82	(78,414.81)
Public Safety	138,000.00	138,000.00	146,239.99	(8,239.99)
Urban and Economic Development	400.00	400.00		400.00
Culture and Recreation	210,450.00	210,450.00	179,321.33	31,128.67
Other	31,000.00	31,000.00	1,351.97	29,648.03
<u>Debt Service:</u>				
Principal	82,020.80	82,020.80	82,020.80	
Interest	38,928.40	38,928.40	38,928.40	
Total Expenditures	790,485.21	790,485.21	815,963.31	(25,478.10)
Net Change in Fund Balances	(105,000.38)	(105,000.38)	126,728.98	231,729.36
Fund Balance - January 1	40,012.15	40,012.15	40,012.15	
Fund Balance - December 31	(64,988.23)	(64,988.23)	166,741.13	231,729.36

CITY OF CENTER
Center, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	121,000.00	121,000.00	100,164.46	(20,835.54)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	121,000.00	121,000.00	216,502.01	(95,502.01)
Net Change in Fund Balances			(116,337.55)	(116,337.55)
Fund Balance - January 1	343,193.62	343,193.62	343,193.62	
Fund Balance - December 31	343,193.62	343,193.62	226,856.07	(116,337.55)

CITY OF CENTER
Center, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2017

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2017.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ending December 31, 2017:

General Fund	25,478.10
<u>Special Revenue Fund</u>	
Street	95,502.01

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

CITY OF CENTER
Center, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2017

	Balance 1-1-17	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-17
<u>Major Governmental Funds</u>						
General	40,012.15	821,743.09			695,014.11	166,741.13
Street	343,193.62	100,164.46			216,502.01	226,856.07
Total Major Governmental Funds	383,205.77	921,907.55			911,516.12	393,597.20
<u>Non-Major Governmental Fund</u>						
Street Repairs	42,410.35	16.91				42,427.26
Total Governmental Funds	425,616.12	921,924.46			911,516.12	436,024.46
<u>Major Enterprise Fund</u>						
Water:						
Operating	226,554.88	142,217.39			165,277.67	203,494.60
SRF Water Plant	61,817.58					61,817.58
Total Major Enterprise Fund	288,372.46	142,217.39			165,277.67	265,312.18
<u>Non-Major Enterprise Funds</u>						
Sewer	18,273.42	33,394.25			23,361.67	28,306.00
Garbage	40,152.44	54,423.11			53,286.42	41,289.13
Sewer Increase	83,663.46	8,139.41				91,802.87
Sewer Repairs	41,512.03	7,097.60				48,609.63
Total Non-Major Enterprise Funds	183,601.35	103,054.37			76,648.09	210,007.63
Total Enterprise Funds	471,973.81	245,271.76			241,925.76	475,319.81
Total All Funds	897,589.93	1,167,196.22			1,153,441.88	911,344.27

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Center
Center, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Center, Center, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated July 6, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

The city's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

July 6, 2018

CITY OF CENTER
Center, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2017

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2017 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.

Rath & Mehrer, P.C.

Certified Public Accountants

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Governing Board
City of Center
Center, North Dakota

Our audit of the financial records of the City of Center, Center, North Dakota, for the year ended December 31, 2017 has disclosed opportunities for improvements in the operations of the city. Items which we believe should be brought to your attention are set forth below:

* * * * *

REVIEW OF PLEDGE OF SECURITIES

Per our review of the governing board's minutes, we did not note a review of the pledge of securities. NDCC #21-04-11 requires the governing board to review the pledge of securities at least every six months to determine if security pledges are adequate or are needed to protect city deposits. We recommend the board review the pledge of securities semi-annually and such action should be noted in the minutes.

* * * * *

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the city, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the city during our audit.



Rath and Mehrer, P.C.

July 6, 2018