

**CITY OF SOUTH HEART  
SOUTH HEART, NORTH DAKOTA**

**AUDIT REPORT**

**EXAMINATION FOR THE FISCAL  
YEAR ENDED DECEMBER 31, 2016**

**James J. Wosepka, PC**

**CERTIFIED PUBLIC ACCOUNTANT**

**LICENSED IN NORTH DAKOTA AND MONTANA**

**BEACH, NORTH DAKOTA  
BAKER, MONTANA**

**CITY OF SOUTH HEART  
SOUTH HEART, NORTH DAKOTA**

**TABLE OF CONTENTS**

|  | <u>Page</u> |
|--|-------------|
| CITY COUNCIL AND OFFICIALS   | 2           |
| INDEPENDENT AUDITOR'S REPORT   | 3-5         |
| FINANCIAL STATEMENTS   |             |
| Statement of Net Position  | 6           |
| Statement of Activities  | 7           |
| Balance Sheet – Governmental Funds   | 8           |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds   | 9           |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Government Funds to the Statement of Activities   | 10          |
| Statement of Net Position – Proprietary Funds  | 11          |
| Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds  | 12          |
| Statement of Cash Flows - Proprietary Funds  | 13          |
| Statement of Agency Funds Net Position   | 14          |
| Notes to the Financial Statements  | 15-23       |
| REQUIRED SUPPLEMENTARY INFORMATION   | 24          |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – General Fund   | 25          |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – Special Revenue Fund   | 26          |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  | 27          |
| SUPPLEMENTARY INFORMATION  | 28          |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – Special Revenue Fund   | 29          |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – Capital Projects Fund  | 30          |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Debt Service Fund  | 31          |
| 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 | 32-33       |

**CITY OF SOUTH HEART  
SOUTH HEART, NORTH DAKOTA**

**CITY OFFICIALS**

|              |         |
|--------------|---------|
| Floyd Hurt   | Mayor   |
| Chris Kanski | Member  |
| Chuck Andrus | Member  |
| Quain Kudrna | Member  |
| Jayme Lefor  | Member  |
| Renae Praus  | Auditor |



PO Box 970  
41 Central Ave S  
Beach, ND 58621-0970  
Phone: 701-872-4321  
Fax: 701-872-4320

PO Box 602  
115 N Main, Suite B  
Baker, MT 59313-0602  
Phone: 406-778-2816  
Fax: 406-778-2866

## James J. Wosepka, PC - Certified Public Accountant

Licensed in North Dakota and Montana

### INDEPENDENT AUDITOR'S REPORT

City Council  
City of South Heart  
South Heart, North Dakota 58621

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and business-type activities, and each major fund of the City of South Heart, South Heart, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

Management has not recorded capital assets in the governmental activities and the business-type activities and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated which would increase the assets, net position, and expenses of the governmental activities and the business-type activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities and business-type activities is not reasonably determinable.

### **Qualified Opinion**

In our opinion, except for the effects of not recording capital assets, as discussed in the preceding paragraph, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities, and each major fund of the City of South Heart, South Heart, North Dakota, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* (omitted) and *budgetary comparison information* on pages 24 – 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our

audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management omitted the *management's discussion and analysis*. Our opinion on the basic financial statements is not affected by this missing information.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Heart's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements on pages 28 – 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

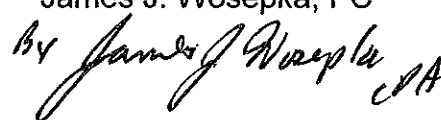
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

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

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2017, on our consideration of the City of South Heart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of South Heart, South Heart, North Dakota's internal control over financial reporting and compliance.

June 15, 2017  
Beach, North Dakota

James J. Wosepka, PC  
By 

**CITY OF SOUTH HEART  
STATEMENT OF NET POSITION  
December 31, 2016**

|                              | Primary Government         |                             |                     |
|------------------------------|----------------------------|-----------------------------|---------------------|
|                              | Governmental<br>Activities | Business-type<br>Activities | Total               |
| <b>ASSETS</b>                |                            |                             |                     |
| Cash and cash equivalents    | \$ 1,758,411               | \$ 367,301                  | \$ 2,125,712        |
| Restricted cash              | 182,786                    | -                           | 182,786             |
| Receivables                  | 1,361                      | 12,385                      | 13,746              |
| Due from/to other funds      | 309,526                    | (309,526)                   | -                   |
| Due from other governments   | -                          | 72,794                      | 72,794              |
| <b>Total Assets</b>          | <u>2,252,084</u>           | <u>142,954</u>              | <u>2,395,038</u>    |
| <b>LIABILITIES</b>           |                            |                             |                     |
| Current liabilities:         |                            |                             |                     |
| Accounts payable             | 272,298                    | -                           | 272,298             |
| Total current liabilities    | <u>272,298</u>             | <u>-</u>                    | <u>272,298</u>      |
| Noncurrent liabilities:      |                            |                             |                     |
| Due within one year          | 20,000                     | -                           | 20,000              |
| Due in more than one year    | 60,000                     | -                           | 60,000              |
| Total noncurrent liabilities | <u>80,000</u>              | <u>-</u>                    | <u>80,000</u>       |
| <b>Total Liabilities</b>     | <u>352,298</u>             | <u>-</u>                    | <u>352,298</u>      |
| <b>NET POSITION</b>          |                            |                             |                     |
| Restricted for:              |                            |                             |                     |
| Debt service                 | 40,583                     | -                           | 40,583              |
| Capital projects/recreation  | 192,292                    | -                           | 192,292             |
| Unrestricted                 | 1,666,911                  | 142,954                     | 1,809,865           |
| <b>Total Net Position</b>    | <u>\$ 1,899,786</u>        | <u>\$ 142,954</u>           | <u>\$ 2,042,740</u> |

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



STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED DECEMBER 31, 2016

| Functions/Programs                          | Program Revenues    |                              |                          | Net (Expense) Revenue and Changes in Net Position |                          |                     |
|---|---------------------|------------------------------|--------------------------|---|--------------------------|---------------------|
|   | Charges for         |                              |                          | Primary Government                                |                          |                     |
|   | Expenses            | Services, Fines, Forfeitures | Grants and Contributions | Governmental Activities                           | Business-type Activities | Total               |
| <b>Governmental activities:</b>             |                     |                              |                          |   |                          |                     |
| General government                          | \$ 188,202          | \$ -                         | -                        | (188,202)   | \$ -                     | (188,202)           |
| Public safety                               | 28,748              | 645                          | -                        | (28,103)  | -                        | (28,103)            |
| Public works                                | 396,925             | -                            | 10,768                   | (386,157)   | -                        | (386,157)           |
| Culture and recreation                      | 28,703              | -                            | -                        | (28,703)  | -                        | (28,703)            |
| Interest on long-term debt                  | 2,295               | -                            | -                        | (2,295)   | -                        | (2,295)             |
| Miscellaneous                               | -                   | -                            | -                        | -   | -                        | -                   |
| <b>Total governmental activities</b>        | <b>644,873</b>      | <b>645</b>                   | <b>10,768</b>            | <b>(633,460)</b>                                  | <b>-</b>                 | <b>(633,460)</b>    |
| <b>Business-type activities:</b>            |                     |                              |                          |   |                          |                     |
| Water                                       | 322,701             | 97,872                       | -                        | -   | (224,829)                | (224,829)           |
| Wastewater                                  | 149,955             | 33,442                       | -                        | -   | (116,513)                | (116,513)           |
| Refuse                                      | 35,724              | 42,480                       | -                        | -   | 6,756                    | 6,756               |
| Mosquito                                    | 1,560               | 2,701                        | -                        | -   | 1,141                    | 1,141               |
| Landfill                                    | -                   | 5,552                        | -                        | -   | 5,552                    | 5,552               |
| <b>Total business-type activities</b>       | <b>509,940</b>      | <b>182,047</b>               | <b>-</b>                 | <b>-</b>  | <b>(327,893)</b>         | <b>(327,893)</b>    |
| <b>Total primary government</b>             | <b>\$ 1,154,813</b> | <b>\$ 182,692</b>            | <b>\$ 10,768</b>         | <b>\$ (633,460)</b>                               | <b>\$ (327,893)</b>      | <b>\$ (961,353)</b> |
| <b>General revenues:</b>                    |                     |                              |                          |   |                          |                     |
| Property taxes                              |                     |                              |                          | 101,556   | -                        | 101,556             |
| Licenses and permits                        |                     |                              |                          | 29,500  | -                        | 29,500              |
| Unrestricted Federal/State shared revenues  |                     |                              |                          | 276,181   | -                        | 276,181             |
| Unrestricted grants and contributions       |                     |                              |                          | -   | 301,378                  | 301,378             |
| Unrestricted investment earnings            |                     |                              |                          | 1,826   | -                        | 1,826               |
| Miscellaneous                               |                     |                              |                          | 11,304  | 3,180                    | 14,484              |
| Gain on sale of assets                      |                     |                              |                          | -   | -                        | -                   |
| Transfers                                   |                     |                              |                          | (40,000)  | 40,000                   | -                   |
| <b>Total general revenues and transfers</b> |                     |                              |                          | <b>380,367</b>                                    | <b>344,558</b>           | <b>724,925</b>      |
| Change in net position                      |                     |                              |                          | (253,093)   | 16,665                   | (236,428)           |
| Total net position - January 1, 2016        |                     |                              |                          | 2,152,879   | 126,289                  | 2,279,168           |
| Total net position - December 31, 2016      |                     |                              |                          | \$ 1,899,786                                      | \$ 142,954               | \$ 2,042,740        |

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



**CITY OF SOUTH HEART  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016**

| Description                                | Major Funds         |                         |                                | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------------|--------------------------------|--------------------------------|
|  | General             | Highway<br>Distribution | Other<br>Governmental<br>Funds |                                |
| <b>ASSETS</b>                              |                     |                         |                                |                                |
| Cash and cash equivalents                  | \$ 1,600,902        | \$ -                    | \$ 157,509                     | \$ 1,758,411                   |
| Restricted cash                            | 182,786             | -                       | -                              | 182,786                        |
| Receivables                                | -                   | 1,361                   | -                              | 1,361                          |
| Due from other funds                       | 531,021             | -                       | -                              | 531,021                        |
| <b>Total Assets</b>                        | <b>\$ 2,314,709</b> | <b>\$ 1,361</b>         | <b>\$ 157,509</b>              | <b>\$ 2,473,579</b>            |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                         |                                |                                |
| Liabilities:                               |                     |                         |                                |                                |
| Payable other funds                        | \$ -                | \$ 272,298              | \$ -                           | \$ 272,298                     |
| Due to other funds                         | -                   | 195,629                 | 25,866                         | 221,495                        |
| <b>Total Liabilities</b>                   | <b>\$ -</b>         | <b>\$ 467,927</b>       | <b>\$ 25,866</b>               | <b>\$ 493,793</b>              |
| Fund balances:                             |                     |                         |                                |                                |
| Restricted                                 | \$ -                | \$ -                    | \$ 50,089                      | \$ 50,089                      |
| Assigned                                   | 182,786             | -                       | -                              | 182,786                        |
| Unassigned                                 | 2,131,923           | (466,566)               | 81,554                         | 1,746,911                      |
| <b>Total Fund Balances</b>                 | <b>2,314,709</b>    | <b>(466,566)</b>        | <b>131,643</b>                 | <b>1,979,786</b>               |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 2,314,709</b> | <b>\$ 1,361</b>         | <b>\$ 157,509</b>              |                                |

Amounts reported for governmental activity in  
Statement of Net Position are different because:

Long-term liabilities, including bonds payable,  
are not due and payable in the current period  
and therefore, are not reported in the funds.

Net position of governmental activities

(80,000)

\$ 1,899,786

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

CITY OF SOUTH HEART  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FISCAL YEAR ENDED DECEMBER 31, 2016

| Description   | Major Funds         |                      |                          | Total Governmental Funds |
|---|---------------------|----------------------|--------------------------|--------------------------|
|   | General             | Highway Distribution | Other Governmental Funds |                          |
| <b>REVENUES</b>                                     |                     |                      |                          |                          |
| Taxes/assessments                                   | \$ 62,643           | \$ 15,294            | \$ 23,619                | \$ 101,556               |
| Licenses and permits                                | 29,500              | -                    | -                        | 29,500                   |
| Intergovernmental revenues                          | 257,460             | 29,489               | -                        | 286,949                  |
| Fines and forfeitures                               | 645                 | -                    | -                        | 645                      |
| Miscellaneous                                       | 10,682              | 622                  | -                        | 11,304                   |
| Investment earnings                                 | 1,826               | -                    | -                        | 1,826                    |
| <b>Total Revenues</b>                               | <b>362,756</b>      | <b>45,405</b>        | <b>23,619</b>            | <b>431,780</b>           |
| <b>EXPENDITURES</b>                                 |                     |                      |                          |                          |
| Current:  |                     |                      |                          |                          |
| General government                                  | 162,221             | -                    | 25,981                   | 188,202                  |
| Public safety                                       | 28,748              | -                    | -                        | 28,748                   |
| Public works  | -                   | 396,925              | -                        | 396,925                  |
| Culture and recreation                              | 28,703              | -                    | -                        | 28,703                   |
| Debt Service:                                       |                     |                      |                          |                          |
| Principal   | -                   | -                    | 20,000                   | 20,000                   |
| Interest  | -                   | -                    | 2,295                    | 2,295                    |
| Capital outlay                                      | -                   | -                    | -                        | -                        |
| <b>Total Expenditures</b>                           | <b>219,672</b>      | <b>396,925</b>       | <b>48,276</b>            | <b>664,873</b>           |
| <b>Excess of revenues over (under) expenditures</b> | <b>143,084</b>      | <b>(351,520)</b>     | <b>(24,657)</b>          | <b>(233,093)</b>         |
| <b>OTHER FINANCING SOURCES (USES):</b>              |                     |                      |                          |                          |
| Transfers in  | -                   | 35,000               | -                        | 35,000                   |
| Transfers out                                       | (75,000)            | -                    | -                        | (75,000)                 |
| <b>Total other financing sources (uses)</b>         | <b>(75,000)</b>     | <b>35,000</b>        | <b>-</b>                 | <b>(40,000)</b>          |
| <b>Net change in fund balances</b>                  | <b>68,084</b>       | <b>(316,520)</b>     | <b>(24,657)</b>          | <b>(273,093)</b>         |
| <b>Fund balances - January 1, 2016</b>              | <b>2,246,625</b>    | <b>(150,046)</b>     | <b>156,300</b>           | <b>2,252,879</b>         |
| <b>Fund balances - December 31, 2016</b>            | <b>\$ 2,314,709</b> | <b>\$ (466,566)</b>  | <b>\$ 131,643</b>        | <b>\$ 1,979,786</b>      |

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

**CITY OF SOUTH HEART  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED DECEMBER 31, 2016**

|   |                                   |
|---|-----------------------------------|
| Net change in fund balances - total governmental funds (page 9)   | \$ <u>(273,093)</u>               |
| Amounts reported for governmental activities in the Statement of Activities<br>(page 7) are different because:  |                                   |
| Repayment of debt principal is an expenditure in the governmental funds,<br>but the repayment reduces long-term debt in the Statement of Net Position:<br>Long-term bond principal payments | <u>20,000</u>                     |
| <b>Change in Net Position in Governmental Activities</b>  | <b>\$ <u><u>(253,093)</u></u></b> |

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

CITY OF SOUTH HEART  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2016

| Description                 | Business-type Activities |                     |                                 |                   |
|-----------------------------|--------------------------|---------------------|---------------------------------|-------------------|
|                             | Major Enterprise Funds   |                     | Nonmajor<br>Enterprise<br>Funds | Totals            |
|                             | Water                    | Waste<br>Water      |                                 |                   |
| <b>ASSETS</b>               |                          |                     |                                 |                   |
| <b>Current Assets</b>       |                          |                     |                                 |                   |
| Cash and cash equivalents   | \$ 183,241               | \$ -                | \$ 184,060                      | \$ 367,301        |
| Accounts/other receivables  | 4,787                    | 3,021               | 4,577                           | 12,385            |
| Due from other governments  | -                        | 72,794              | -                               | 72,794            |
| <b>Total Current Assets</b> | <u>188,028</u>           | <u>75,815</u>       | <u>188,637</u>                  | <u>452,480</u>    |
| <b>LIABILITIES</b>          |                          |                     |                                 |                   |
| Due to other funds          | -                        | 309,526             | -                               | 309,526           |
| <b>Total Liabilities</b>    | <u>-</u>                 | <u>309,526</u>      | <u>-</u>                        | <u>309,526</u>    |
| <b>NET POSITION</b>         |                          |                     |                                 |                   |
| Unrestricted                | 188,028                  | (233,711)           | 188,637                         | 142,954           |
| <b>Total Net Position</b>   | <u>\$ 188,028</u>        | <u>\$ (233,711)</u> | <u>\$ 188,637</u>               | <u>\$ 142,954</u> |

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

CITY OF SOUTH HEART  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED DECEMBER 31, 2016

| Description   | Business-type Activities |                     |                                 | Totals            |
|---|--------------------------|---------------------|---------------------------------|-------------------|
|   | Major Enterprises Funds  |                     | Nonmajor<br>Enterprise<br>Funds |                   |
|   | Water                    | Waste<br>Water      |                                 |                   |
| <b>OPERATING REVENUES</b>                               |                          |                     |                                 |                   |
| Charges for services                                    | \$ 97,872                | \$ 33,442           | \$ 50,733                       | \$ 182,047        |
| Miscellaneous revenue                                   | 3,180                    | -                   | -                               | 3,180             |
| <b>Total Operating Revenues</b>                         | <u>101,052</u>           | <u>33,442</u>       | <u>50,733</u>                   | <u>185,227</u>    |
| <b>OPERATING EXPENSES</b>                               |                          |                     |                                 |                   |
| Personal services                                       | 14,196                   | 9,830               | 636                             | 24,662            |
| Supplies  | 19,828                   | 1,125               | 1,415                           | 22,368            |
| Purchased services                                      | 76,259                   | 5,454               | 35,233                          | 116,946           |
| Building materials                                      | 212,418                  | 133,546             | -                               | 345,964           |
| <b>Total Operating Expenses</b>                         | <u>322,701</u>           | <u>149,955</u>      | <u>37,284</u>                   | <u>509,940</u>    |
| Operating Income (Loss)                                 | <u>(221,649)</u>         | <u>(116,513)</u>    | <u>13,449</u>                   | <u>(324,713)</u>  |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                |                          |                     |                                 |                   |
| Intergovernmental revenue                               | 37,396                   | 263,982             | -                               | 301,378           |
| <b>Total Non-Operating Revenues (Expenses)</b>          | <u>37,396</u>            | <u>263,982</u>      | <u>-</u>                        | <u>301,378</u>    |
| <b>Income (Loss) before contributions and transfers</b> | <u>(184,253)</u>         | <u>147,469</u>      | <u>13,449</u>                   | <u>(23,335)</u>   |
| Transfers in (out)                                      | <u>40,000</u>            | <u>-</u>            | <u>-</u>                        | <u>40,000</u>     |
| <b>Change in net position</b>                           | <u>(144,253)</u>         | <u>147,469</u>      | <u>13,449</u>                   | <u>16,665</u>     |
| <b>Total net position - January 1, 2016</b>             | <u>332,281</u>           | <u>(381,180)</u>    | <u>175,188</u>                  | <u>126,289</u>    |
| <b>Total net position - December 31, 2016</b>           | <u>\$ 188,028</u>        | <u>\$ (233,711)</u> | <u>\$ 188,637</u>               | <u>\$ 142,954</u> |

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

CITY OF SOUTH HEART  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED DECEMBER 31, 2016

| Description  | Business-type Activities |                     |                                 |                     |
|--|--------------------------|---------------------|---------------------------------|---------------------|
|  | Major Enterprise Funds   |                     | Nonmajor<br>Enterprise<br>Funds | Totals              |
|  | Water                    | Waste<br>Water      |                                 |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                          |                     |                                 |                     |
| Cash received from customers   | \$ 101,066               | \$ 33,350           | \$ 50,963                       | \$ 185,379          |
| Cash paid to suppliers   | (308,505)                | (140,125)           | (36,648)                        | (485,278)           |
| Cash paid to employees   | (14,196)                 | (9,830)             | (636)                           | (24,662)            |
| Net cash provided (used) by operating activities   | <u>(221,635)</u>         | <u>(116,605)</u>    | <u>13,679</u>                   | <u>(324,561)</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES</b>   |                          |                     |                                 |                     |
| Transfers from (to) other funds  | 40,000                   | -                   | -                               | 40,000              |
| Advances from (to) other funds   | -                        | 309,526             | -                               | 309,526             |
| Subsidies from taxes and other governments   | <u>37,396</u>            | <u>191,188</u>      | <u>-</u>                        | <u>228,584</u>      |
| Net cash provided (used) by noncapital and related<br>financing activities                         | <u>77,396</u>            | <u>500,714</u>      | <u>-</u>                        | <u>578,110</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                                |                          |                     |                                 |                     |
| Capital contributions  | -                        | -                   | -                               | -                   |
| Purchases/acquisition/construction of capital assets   | <u>-</u>                 | <u>-</u>            | <u>-</u>                        | <u>-</u>            |
| Net cash provided (used) by capital and related<br>financing activities                            | <u>-</u>                 | <u>-</u>            | <u>-</u>                        | <u>-</u>            |
| Net increase (decrease) in cash and cash equivalents   | (144,239)                | 384,109             | 13,679                          | 253,549             |
| Cash and cash equivalents - January 1, 2016  | 327,480                  | (384,109)           | 170,381                         | 113,752             |
| Cash and cash equivalents - December 31, 2016  | <u>\$ 183,241</u>        | <u>\$ -</u>         | <u>\$ 184,060</u>               | <u>\$ 367,301</u>   |
| <b>Reconciliation of operating income to net cash<br/>provided (used) by operating activities:</b> |                          |                     |                                 |                     |
| Operating income   | \$ (221,649)             | \$ (116,513)        | \$ 13,449                       | \$ (324,713)        |
| Adjustments to reconcile operating income to net cash<br>provided (used) by operating activities   |                          |                     |                                 |                     |
| (Increase) Decrease in accounts receivable   | 14                       | (92)                | 230                             | 152                 |
| Total adjustments  | <u>14</u>                | <u>(92)</u>         | <u>230</u>                      | <u>152</u>          |
| Net cash provided (used) by operating activities   | <u>\$ (221,635)</u>      | <u>\$ (116,605)</u> | <u>\$ 13,679</u>                | <u>\$ (324,561)</u> |

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

**CITY OF SOUTH HEART**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AGENCY FUNDS**  
**FISCAL YEAR ENDED DECEMBER 31, 2016**

|                           | <u>Agency<br/>Funds</u>     |
|---------------------------|-----------------------------|
| <u>Description</u>        | <u>Agency<br/>Composite</u> |
| <b>ASSETS</b>             |                             |
| Cash and cash equivalents | \$ <u>292</u>               |
| <b>TOTAL ASSETS</b>       | <u>292</u>                  |
| <b>LIABILITIES</b>        |                             |
| Warrants payable          | \$ <u>292</u>               |
| <b>TOTAL LIABILITIES</b>  | <u>292</u>                  |

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



CITY OF SOUTH HEART  
SOUTH HEART, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

1. **Summary of Significant Accounting Policies**

The financial statements of the City of South Heart, North Dakota (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units, except for the reporting of capital assets, which the City does not report. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The City's significant accounting policies are described below.

**Reporting Entity**

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

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

**Basic Financial Statements**

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

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

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

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

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

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

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

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

major funds (a percentage of assets, liabilities, revenues, or expenditures/ expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The City reports the following major governmental funds:

General Fund - This 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.

Highway Distribution Fund - This fund is used for street projects.

The City reports two major proprietary funds which includes the following activities:

Water Fund - This accounts for the activity of the Water Department. The department operates the water distribution system in the City of South Heart.

Wastewater Fund - This accounts for the activity of the Sewer Department. The department operates the waste water collection system in the City of South Heart.

**Measurement Focus and Basis of Accounting**

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

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

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

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

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

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

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

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses

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

are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income, grants, interest expense, and capital expenditures that are not a result of the direct operations of the activity.

**Capital Assets**

The City does not record capital assets in accordance with GASB Statement No. 34.

**Enterprise Accounts Receivable**

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

**Inventories**

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

**Interfund Transactions**

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

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

**Encumbrances**

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

**Net Position**

Net position represents the difference between assets and liabilities. Net position is 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, laws, or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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

**Fund Balances – Governmental Funds**

As of December 31, 2016, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

As of December 31, 2016, fund balances are composed of the following:

|                         | <u>General<br/>Fund</u> | <u>Highway<br/>Distribution</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------|-------------------------|---------------------------------|---|---|
| Restricted:             |                         |                                 |   |   |
| Capital project         | \$ -                    | \$ -                            | \$ 9,506                                | \$ 9,506                                |
| Debt service            | -                       | -                               | 40,583                                  | 40,583                                  |
| Assigned                | 182,786                 | -                               | 81,554                                  | 264,340                                 |
| Unassigned funds        | <u>2,131,923</u>        | <u>(466,566)</u>                | <u>-</u>                                | <u>1,665,357</u>                        |
| <br>Total fund balances | <br><u>\$ 2,314,709</u> | <br><u>\$ (466,566)</u>         | <br><u>\$ 131,643</u>                   | <br><u>\$ 1,979,786</u>                 |

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

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

**Deficit Net Position or Fund Balance**

The City has four funds that have a deficit in the Net Position or Fund Balance. This is because revenues were received in the General Fund, but expended in other funds. Transfers will be made to eliminate the deficits.

2. **Cash and Cash Equivalents**

The City maintains a cash pool for all funds under the control of the City Auditor. Cash includes cash and cash items of checking and savings deposits with maturity dates of three months or less when purchased.

The composition of cash on December 31, 2016 was as follows:

| <u>Cash</u>                 |                     |
|-----------------------------|---------------------|
| Cash in Banks               |                     |
| Demand and Savings Deposits | \$ 2,308,498        |
| Total                       | <u>\$ 2,308,498</u> |

Deposits – As of December 31, 2016, the carrying amount of the City's deposits was \$2,308,498 and the bank balance was \$2,308,711. These deposits include demand and savings deposits. Of the bank balance, \$466,528 was covered by Federal Depository Insurance, the balance \$1,842,183 was covered by pledged securities.

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

North Dakota statutes require that the City obtain pledged securities for the uninsured portion of the deposits equal to 110% of such deposits. The amount of collateral held for City deposits at December 31, 2016 exceeded the amount required by state statutes.

State statutes authorize local governments to invest in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by the Treasury of the United States or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) Obligations of the state.

3. **Risk Management**

The City of South Heart 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.



**3. Risk Management – cont.**

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), 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 of South Heart pays an annual premium to NDRIF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence. No settled claims have exceeded insurance coverage in any of the past three fiscal years.

The City of South Heart also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of South Heart 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 of South Heart with 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 continues to carry commercial insurance for all other risks of loss including Worker's Compensation.

**4. Long-term Debt**

The following is a summary of debt transactions of the City for the years ended December 31, 2016.

|                            |                  |
|----------------------------|------------------|
|                            | <u>2016</u>      |
| Balance, beginning of year | \$ 100,000       |
| Issued                     | -                |
| Retired                    | <u>(20,000)</u>  |
| Balance, end of year       | <u>\$ 80,000</u> |

During 2010, the City issued bonds for road resurfacing. The total amount of the Bond Issue was \$170,000. The Bonds are at 2.55% for 10 years with interest due semiannually and principle payments due annually. The following is the schedule of debt payments due.

|      | Principal        | Interest        | Total            |
|------|------------------|-----------------|------------------|
| 2017 | \$ 20,000        | \$ 1,785        | 21,785           |
| 2018 | 20,000           | 1,275           | 21,275           |
| 2019 | 20,000           | 765             | 20,765           |
| 2020 | <u>20,000</u>    | <u>255</u>      | <u>20,255</u>    |
|      | <u>\$ 80,000</u> | <u>\$ 4,080</u> | <u>\$ 84,080</u> |

Payments are made from the 2009-01 Street Improvement Dist. Fund. A \$120,000 Special Assessment has been assessed to property owners.

5. **Related Part Transactions**

The City compensates members of the City Council for water and sewer maintenance, snow removal, and general labor. The following details the amounts paid to members for their services during 2016.

|              |    |        |
|--------------|----|--------|
| Quain Kudrna | \$ | 11,050 |
| Floyd Hurt   | \$ | 9,760  |
| Jayne Lefor  | \$ | 150    |

6. **Due From/(To) Other Funds**

Expenditures have been paid out of funds when the revenue has been received in other funds. This has created negative cash which has been reclassified as Due From/(To) Other Funds.

7. **Grants**

As of December 31, 2013, the City had received three different grants from the North Dakota State Land Department, Energy Infrastructure and Impact Office. Only one had a balance to be received after 2016.

Grant 130018 was for sanitary sewer and water main improvement in 2013. The total grant was \$1,002,800. As of December 31, 2016, all funds had been received and expended.

Grant 140002 was for a pressure sewer line project. The total grant was \$2,112,344. As of December 31, 2016, \$2,022,803 had been received or was receivable, with \$89,541 available.

During 2015, the City received a Surge Fund grant from the State of North Dakota for \$1,283,391. During 2015 and 2016, the City had expended \$720,951 and \$497,225 respectively, with a balance of \$65,215.

8. **Subsequent Events**

Subsequent events have been evaluated through the date of these financial statements.

REQUIRED

SUPPLEMENTARY INFORMATION

**CITY OF SOUTH HEART**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund**  
**Year Ended December 31, 2016**

|   | <u>Original<br/>Budget<br/>Amounts</u> | <u>Final<br/>Budget<br/>Amounts</u> | <u>Actual<br/>Amounts</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| <b>Revenues:</b>  |  |                                     |                           |   |
| Taxes/Special Assessments   | \$ 25,525                              | \$ 25,525                           | \$ 62,643                 | \$ 37,118                                       |
| Sales Tax   | 100,000                                | 100,000                             | 88,240                    | (11,760)  |
| Licenses and Permits  | 31,825                                 | 31,825                              | 29,500                    | (2,325)   |
| Intergovernmental Revenue   | 95,000                                 | 95,000                              | 169,220                   | 74,220  |
| Fines and Forfeitures   | 1,025                                  | 1,025                               | 645                       | (380)   |
| Miscellaneous Revenue   | 10,000                                 | 10,000                              | 10,682                    | 682   |
| Investment Earnings   | 1,050                                  | 1,050                               | 1,826                     | 776   |
| Total revenues  | <u>264,425</u>                         | <u>264,425</u>                      | <u>362,756</u>            | <u>98,331</u>                                   |
| <b>Expenditures:</b>  |  |                                     |                           |   |
| <b>Current:</b>   |  |                                     |                           |   |
| General Government  | 333,801                                | 384,477                             | 162,221                   | 222,256   |
| Public Safety   | 61,875                                 | 61,875                              | 26,185                    | 35,690  |
| Public Works  | 20,000                                 | 20,000                              | 2,563                     | 17,437  |
| Culture and Recreation  | 25,000                                 | 25,000                              | 28,703                    | (3,703)   |
| Principal   | -                                      | -                                   | -                         | -   |
| Interest  | -                                      | -                                   | -                         | -   |
| Miscellaneous   | -                                      | -                                   | -                         | -   |
| Total expenditures  | <u>440,676</u>                         | <u>491,352</u>                      | <u>219,672</u>            | <u>271,680</u>                                  |
| <b>Excess of revenues over (under) expenditures</b>   | <u>(176,251)</u>                       | <u>(226,927)</u>                    | <u>143,084</u>            | <u>370,011</u>                                  |
| <b>Other Financing Sources (Uses):</b>  |  |                                     |                           |   |
| Sale of Assets  | 5,000                                  | 5,000                               | -                         | (5,000)   |
| Operating Transfers In  | -                                      | -                                   | -                         | -   |
| Operating Transfers (Out)   | -                                      | -                                   | (75,000)                  | (75,000)  |
| Total other financing sources (uses)  | <u>5,000</u>                           | <u>5,000</u>                        | <u>(75,000)</u>           | <u>(80,000)</u>                                 |
| <b>Excess (Deficiency) of Revenues and Other Sources<br/>Over Expenditures and Other Uses</b> | <u>\$ (171,251)</u>                    | <u>\$ (221,927)</u>                 | <u>68,084</u>             | <u>\$ 290,011</u>                               |
| <b>Fund Balances - January 1, 2016</b>  |  |                                     | <u>2,246,625</u>          |   |
| <b>Fund Balances - December 31, 2016</b>  |  |                                     | <u>\$ 2,314,709</u>       |   |

**CITY OF SOUTH HEART**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Highway Distribution Fund**  
**Year Ended December 31, 2016**

|   | <u>Original<br/>Budget<br/>Amounts</u> | <u>Final<br/>Budget<br/>Amounts</u> | <u>Actual<br/>Amounts</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| <b>Revenues:</b>  |  |                                     |                           |   |
| Taxes/Special Assessments   | \$ 15,000                              | \$ 15,000                           | \$ 15,294                 | \$ 294  |
| Licenses and Permits  | -                                      | -                                   | -                         | -   |
| Intergovernmental Revenue   | 27,000                                 | 27,000                              | 29,489                    | 2,489   |
| Fines and Forfeitures   | -                                      | -                                   | -                         | -   |
| Miscellaneous Revenues  | -                                      | -                                   | 622                       | 622   |
| Investment Earnings   | -                                      | -                                   | -                         | -   |
| Total revenues  | <u>42,000</u>                          | <u>42,000</u>                       | <u>45,405</u>             | <u>3,405</u>                                    |
| <b>Expenditures:</b>  |  |                                     |                           |   |
| Current:  |  |                                     |                           |   |
| General Government  | -                                      | -                                   | -                         | -   |
| Public Safety   | -                                      | -                                   | -                         | -   |
| Public Works  | 85,600                                 | 155,600                             | 124,626                   | 30,974  |
| Culture and Recreation  | -                                      | -                                   | -                         | -   |
| Principal   | -                                      | -                                   | -                         | -   |
| Interest  | -                                      | -                                   | -                         | -   |
| Miscellaneous   | -                                      | -                                   | -                         | -   |
| Total expenditures  | <u>85,600</u>                          | <u>155,600</u>                      | <u>124,626</u>            | <u>30,974</u>                                   |
| Excess of revenues over (under) expenditures  | <u>(43,600)</u>                        | <u>(113,600)</u>                    | <u>(79,221)</u>           | <u>34,379</u>                                   |
| <b>Other Financing Sources (Uses):</b>  |  |                                     |                           |   |
| Operating Transfers In  | -                                      | -                                   | 35,000                    | 35,000  |
| Operating Transfers (Out)   | -                                      | -                                   | -                         | -   |
| Total other financing sources (uses)  | <u>-</u>                               | <u>-</u>                            | <u>35,000</u>             | <u>35,000</u>                                   |
| Excess (Deficiency) of Revenues and Other Sources<br>Over Expenditures and Other Uses | <u>\$ (43,600)</u>                     | <u>\$ (113,600)</u>                 | <u>(44,221)</u>           | <u>\$ 69,379</u>                                |
| Fund Balances - January 1, 2016   |  |                                     | (150,046)                 |   |
| Fund Balances - December 31, 2016   |  |                                     | (194,267)                 |   |
| Accrued Liability   |  |                                     | <u>272,299</u>            |   |
| GAAP Fund Balance - December 31, 2016   |  |                                     | <u>\$ (466,566)</u>       |   |

**CITY OF SOUTH HEART  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2016**

**Budgets**

The governing body must give notice on or before September 10 that a preliminary budget is on file and the time and place of the meeting to adopt the final budget, but no later than October 7. The final budget and levy shall be submitted to the County Auditor no later than October 10.

Budgets are prepared for the General Fund, Special Revenue Funds, and the Debt Service Funds on a cash basis. Annual appropriations lapse at year end.

No funds were overspent on a cash basis.

**Budget Amendments**

The City amended the following budgets:

|                      | <u>Original<br/>Budget</u> | <u>Change</u> | <u>Final<br/>Budget</u> |
|----------------------|----------------------------|---------------|-------------------------|
| General              | \$ 440,676                 | \$ 50,676     | \$ 491,352              |
| Highway Distribution | \$ 85,600                  | \$ 70,000     | \$ 155,600              |

SUPPLEMENTARY INFORMATION



**CITY OF SOUTH HEART**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Non-major Special Revenue Funds**  
**Year Ended December 31, 2016**

|   | <u>Original<br/>Budget<br/>Amounts</u> | <u>Final<br/>Budget<br/>Amounts</u> | <u>Actual<br/>Amounts</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| <b>Revenues:</b>  |  |                                     |                           |   |
| Taxes/Special Assessments   | \$ 26,430                              | \$ 26,430                           | \$ 9,670                  | \$ (16,760)                                     |
| Licenses and Permits  | -                                      | -                                   | -                         | -   |
| Intergovernmental Revenue   | -                                      | -                                   | -                         | -   |
| Fines and Forfeitures   | -                                      | -                                   | -                         | -   |
| Miscellaneous Revenue   | 3,570                                  | 3,570                               | -                         | (3,570)   |
| Investment Earnings   | 651                                    | 651                                 | -                         | (651)   |
| Charge for Services   | -                                      | -                                   | -                         | -   |
| Total revenues  | <u>30,651</u>                          | <u>30,651</u>                       | <u>9,670</u>              | <u>(20,981)</u>                                 |
| <b>Expenditures:</b>  |  |                                     |                           |   |
| Current:  |  |                                     |                           |   |
| General Government  | 29,150                                 | 29,150                              | 25,981                    | 3,169   |
| Public Safety   | -                                      | -                                   | -                         | -   |
| Public Works  | 5,000                                  | 5,000                               | -                         | 5,000   |
| Culture and Recreation  | -                                      | -                                   | -                         | -   |
| Principal   | -                                      | -                                   | -                         | -   |
| Interest  | -                                      | -                                   | -                         | -   |
| Miscellaneous   | -                                      | -                                   | -                         | -   |
| Total expenditures  | <u>34,150</u>                          | <u>34,150</u>                       | <u>25,981</u>             | <u>8,169</u>                                    |
| Excess of revenues over (under) expenditures  | <u>(3,499)</u>                         | <u>(3,499)</u>                      | <u>(16,311)</u>           | <u>(12,812)</u>                                 |
| <b>Other Financing Sources (Uses):</b>  |  |                                     |                           |   |
| Operating Transfers In  | -                                      | -                                   | -                         | -   |
| Operating Transfers (Out)   | -                                      | -                                   | -                         | -   |
| Total other financing sources (uses)  | <u>-</u>                               | <u>-</u>                            | <u>-</u>                  | <u>-</u>  |
| Excess (Deficiency) of Revenues and Other Sources<br>Over Expenditures and Other Uses | <u>\$ (3,499)</u>                      | <u>\$ (3,499)</u>                   | <u>(16,311)</u>           | <u>\$ (12,812)</u>                              |
| Fund Balances - January 1, 2016   |  |                                     | <u>97,865</u>             |   |
| Fund Balances - December 31, 2016   |  |                                     | <u>\$ 81,554</u>          |   |

CITY OF SOUTH HEART  
Schedule of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual  
Capital Projects Fund  
Year Ended December 31, 2016

|   | Original<br>Budget<br>Amounts | Final<br>Budget<br>Amounts | Actual<br>Amounts | Variance<br>Favorable<br>(Unfavorable) |
|---|-------------------------------|----------------------------|-------------------|--|
| <b>Revenues:</b>  |                               |                            |                   |  |
| Taxes/Special Assessments   | \$ -                          | \$ -                       | \$ -              | \$ -                                   |
| Licenses and Permits  | -                             | -                          | -                 | -                                      |
| Intergovernmental Revenue   | -                             | -                          | -                 | -                                      |
| Fines and Forfeitures   | -                             | -                          | -                 | -                                      |
| Miscellaneous Revenues  | -                             | -                          | -                 | -                                      |
| Investment Earnings   | -                             | -                          | -                 | -                                      |
| Total revenues  | <u>-</u>                      | <u>-</u>                   | <u>-</u>          | <u>-</u>                               |
| <b>Expenditures:</b>  |                               |                            |                   |  |
| Current:  |                               |                            |                   |  |
| General Government  | -                             | -                          | -                 | -                                      |
| Public Safety   | -                             | -                          | -                 | -                                      |
| Public Works  | -                             | -                          | -                 | -                                      |
| Culture and Recreation  | -                             | -                          | -                 | -                                      |
| Principal   | -                             | -                          | -                 | -                                      |
| Interest  | -                             | -                          | -                 | -                                      |
| Miscellaneous   | -                             | -                          | -                 | -                                      |
| Capital outlay  | -                             | -                          | -                 | -                                      |
| Total expenditures  | <u>-</u>                      | <u>-</u>                   | <u>-</u>          | <u>-</u>                               |
| Excess of revenues over (under) expenditures  | <u>-</u>                      | <u>-</u>                   | <u>-</u>          | <u>-</u>                               |
| <b>Other Financing Sources (Uses):</b>  |                               |                            |                   |  |
| Bond proceeds   | -                             | -                          | -                 | -                                      |
| Operating Transfers In  | -                             | -                          | -                 | -                                      |
| Operating Transfers (Out)   | -                             | -                          | -                 | -                                      |
| Total other financing sources (uses)  | <u>-</u>                      | <u>-</u>                   | <u>-</u>          | <u>-</u>                               |
| Excess (Deficiency) of Revenues and Other Sources<br>Over Expenditures and Other Uses | <u>\$ -</u>                   | <u>\$ -</u>                | <u>-</u>          | <u>\$ -</u>                            |
| <b>Fund Balances - January 1, 2016</b>  |                               |                            | <u>9,506</u>      |  |
| <b>Fund Balances - December 31, 2016</b>  |                               |                            | <u>\$ 9,506</u>   |  |

**CITY OF SOUTH HEART**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Debt Service Fund**  
Year Ended December 31, 2016

|   | <u>Original<br/>Budget<br/>Amounts</u> | <u>Final<br/>Budget<br/>Amounts</u> | <u>Actual<br/>Amounts</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| <b>Revenues:</b>  |  |                                     |                           |   |
| Taxes/Special Assessments   | \$ 20,000                              | \$ 20,000                           | \$ 13,949                 | \$ (6,051)                                      |
| Licenses and Permits  | -                                      | -                                   | -                         | -   |
| Intergovernmental Revenue   | -                                      | -                                   | -                         | -   |
| Fines and Forfeitures   | -                                      | -                                   | -                         | -   |
| Miscellaneous Revenues  | -                                      | -                                   | -                         | -   |
| Investment Earnings   | -                                      | -                                   | -                         | -   |
| Total revenues  | <u>20,000</u>                          | <u>20,000</u>                       | <u>13,949</u>             | <u>(6,051)</u>                                  |
| <b>Expenditures:</b>  |  |                                     |                           |   |
| Current:  |  |                                     |                           |   |
| General Government  | -                                      | -                                   | -                         | -   |
| Public Safety   | -                                      | -                                   | -                         | -   |
| Public Works  | -                                      | -                                   | -                         | -   |
| Culture and Recreation  | -                                      | -                                   | -                         | -   |
| Principal   | 24,300                                 | 24,300                              | 20,000                    | 4,300   |
| Interest  | 5,250                                  | 5,250                               | 2,295                     | 2,955   |
| Miscellaneous   | -                                      | -                                   | -                         | -   |
| Total expenditures  | <u>29,550</u>                          | <u>29,550</u>                       | <u>22,295</u>             | <u>7,255</u>                                    |
| <b>Excess of revenues over (under) expenditures</b>   | <u>(9,550)</u>                         | <u>(9,550)</u>                      | <u>(8,346)</u>            | <u>1,204</u>                                    |
| <b>Other Financing Sources (Uses):</b>  |  |                                     |                           |   |
| Operating Transfers In  | -                                      | -                                   | -                         | -   |
| Operating Transfers (Out)   | -                                      | -                                   | -                         | -   |
| Total other financing sources (uses)  | <u>-</u>                               | <u>-</u>                            | <u>-</u>                  | <u>-</u>  |
| <b>Excess (Deficiency) of Revenues and Other Sources<br/>Over Expenditures and Other Uses</b> | <u>\$ (9,550)</u>                      | <u>\$ (9,550)</u>                   | <u>(8,346)</u>            | <u>\$ 1,204</u>                                 |
| <b>Fund Balances - January 1, 2016</b>  |  |                                     | 48,929                    |   |
| <b>Fund Balances - December 31, 2016</b>  |  |                                     | <u>\$ 40,583</u>          |   |

PO Box 970  
41 Central Ave S  
Beach, ND 58621-0970  
Phone: 701-872-4321  
Fax: 701-872-4320

PO Box 602  
115 N Main, Suite B  
Baker, MT 59313-0602  
Phone: 406-778-2816  
Fax: 406-778-2866



## James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

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

City Council  
City of South Heart  
South Heart, North Dakota 58621

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of South Heart, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of South Heart, North Dakota's basic financial statements, and have issued our report thereon dated June 15, 2017.

#### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

James J. Wosepka, PC

June 15, 2017  
Beach, North Dakota

by  CPA