

# **AUDIT REPORT**

CITY OF UNDERWOOD  
Underwood, North Dakota

For the Years Ended December 31, 2015 and 2014

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

CITY OF UNDERWOOD  
Underwood, North Dakota

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For the Years Ended December 31, 2015 and 2014

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CITY OF UNDERWOOD  
Underwood, North Dakota

CITY OFFICIALS

Rick Olson	Commission President
Jim Bailey	Commissioner
Steve Cottingham	Commissioner
Jay Snyder	Commissioner
Ethan Vaagene	Commissioner
Diane Schell	Auditor

# Rath & Mehrer

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Underwood  
Underwood, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Underwood, Underwood, North Dakota, as of and for the years ended December 31, 2015 and 2014, 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 audits. We conducted our audits 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 audits 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Underwood, Underwood, North Dakota, as of December 31, 2015 and 2014, 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 audits were 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, schedule of employer's share of net pension liability and the schedules 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, schedule of employer's share of net pension liability and the schedules 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 audits 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, schedule of employer's share of net pension liability and the schedules 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 August 19, 2016 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*

Rath and Mehrer, P.C.

Bismarck, North Dakota

August 19, 2016

CITY OF UNDERWOOD

Management's Discussion and Analysis

December 31, 2015 and 2014

The Management's Discussion and Analysis (MD&A) of the City of Underwood's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2015 and 2014. 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, 2015 are as follows:

- \* Total net position of the city increased \$454,820 as a result of the current year's operations. Net position of the governmental activities increased \$306,058 and net position of the business-type activities increased \$148,762.
- \* Governmental net position totaled \$2,344,010 and business-type net position totaled \$2,072,954.
- \* Total revenues from all sources were \$1,271,434 for governmental activities and \$272,961 for business-type activities.
- \* Total expenses were \$735,948 for governmental activities and \$353,627 for business-type activities.
- \* The city's general fund had \$345,149 in total revenues and \$282,178 in total expenditures. There was a total of \$11,350 paid from other financing uses. Overall, the general fund balance increased by \$51,621 for the year ended December 31, 2015.

Key financial highlights for the year ended December 31, 2014 are as follows:

- \* Total net position of the city decreased \$118,425 as a result of the current year's operations. Net position of the governmental activities increased \$113,848 and net position of the business-type activities decreased \$232,273.
- \* Governmental net position totaled \$2,099,454 and business-type net position totaled \$1,924,193.
- \* Total revenues from all sources were \$890,305 for governmental activities and \$265,774 for business-type activities.
- \* Total expenses were \$776,457 for governmental activities and \$498,047 for business-type activities.
- \* The city's general fund had \$378,597 in total revenues and \$272,944 in total expenditures. There was a total of \$35,450 paid from other financing uses. Overall, the general fund balance increased by \$70,204 for the year ended December 31, 2014.

## 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 years ended December 31, 2015 and 2014?"

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 and streets and public works. 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, municipal highway fund, sales tax fund, surge fund, flood water drainage fund and 2014 refunding bonds fund are considered "major governmental funds". The city's water fund and sewer fund are considered "major enterprise funds".

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

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Table I provides a summary of the city's net position as of December 31, 2015 and 2014. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position increased by \$454,820 and decreased by \$118,425 for the years ended December 31, 2015 and 2014, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2015 the city's net position of \$4,416,964 is segregated into three separate categories. Net investment in capital assets totals \$1,885,884. It should be noted that these assets are not available for future spending. The restricted component of net position is \$1,186,162 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 is \$1,344,919 which includes (\$58,352) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$1,403,271 is available to meet the city's ongoing obligations.



Table I  
Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	2,126,770	462,662
Capital Assets (net of accumulated depreciation)	4,395,592	1,610,292
Total Assets	<u>6,522,362</u>	<u>2,072,954</u>
Deferred Outflows of Resources	<u>10,432</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	3,590,000	
Long-Term Liabilities	530,000	
Net Pension Liability	57,550	
Total Liabilities	<u>4,177,550</u>	<u>0</u>
Deferred Inflows of Resources	<u>11,234</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	275,592	1,610,292
Restricted	1,186,162	
Unrestricted	882,257	462,662
Total Net Position	<u>2,344,010</u>	<u>2,072,954</u>
	=====	=====

As of December 31, 2014, the city's net position of \$4,023,647 is segregated into three separate categories. Net investment in capital assets represents 50% 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 21% 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 29% of the city's net position and is available to meet the city's ongoing obligations.

Net Position  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,729,491	273,060
Capital Assets (net of accumulated depreciation)	1,089,963	1,651,133
Total Assets	<u>2,819,454</u>	<u>1,924,193</u>
<u>Liabilities</u>		
Current Liabilities	100,000	
Long-Term Liabilities	620,000	
Total Liabilities	<u>720,000</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	369,963	1,651,133
Restricted	844,312	572
Unrestricted	885,179	272,488
Total Net Position	<u>2,099,454</u>	<u>1,924,193</u>
	=====	=====

Net Position  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,590,272	464,491
Capital Assets (net of accumulated depreciation)	1,180,334	1,691,975
Total Assets	<u>2,770,606</u>	<u>2,156,466</u>
<u>Liabilities</u>		
Current Liabilities	85,000	
Long-Term Liabilities	700,000	
Total Liabilities	<u>785,000</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	395,334	1,691,975
Restricted	771,488	1,621
Unrestricted	818,784	462,870
Total Net Position	<u>1,985,606</u> =====	<u>2,156,466</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2015 and 2014. A comparative analysis of city-wide data is presented for both current years and prior year.

Table II

Changes in Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	24,037	270,861
Operating Grants and Contributions	475,387	
<u>General Revenues:</u>		
Property Taxes	105,547	
Other Taxes	534,481	
Intergovernmental - Unrestricted	88,816	
Interest Earnings and Other Revenue	43,165	2,100
Total Revenues	<u>1,271,434</u>	<u>272,961</u>
<u>Expenses</u>		
General Government	119,105	
Public Safety	73,889	
Streets and Public Works	249,171	
Urban and Economic Development	65,557	
Health and Welfare	5,062	
Culture and Recreation	146,766	
Other	24,282	
Discount on Bonds Issued	34,417	
Interest on Long-Term Debt	17,700	
Water		211,709
Sewer		70,235
Garbage		71,683
Total Expenses	<u>735,948</u>	<u>353,627</u>
Net Change in Position Before Transfers	<u>535,486</u>	<u>(80,666)</u>
Transfers	<u>(229,428)</u>	<u>229,428</u>
Net Change in Position	<u>306,058</u> =====	<u>148,761</u> =====

Property taxes constituted 7%, other taxes 35%, unrestricted intergovernmental 6%, operating grants and contributions 31%, and charges for services made up 19% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 11%, public safety 7%, streets and public works 23%, and enterprise 32% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	19,678	258,557
Operating Grants and Contributions	127,121	
<u>General Revenues:</u>		
Property Taxes	92,118	
Other Taxes	509,413	
Intergovernmental - Unrestricted	86,462	
Interest Earnings and Other Revenue	55,513	7,217
<b>Total Revenues</b>	<u>890,305</u>	<u>265,774</u>
<b>Expenses</b>		
General Government	133,427	
Public Safety	64,346	
Streets and Public Works	250,469	
Urban and Economic Development	81,400	
Health and Welfare	5,571	
Culture and Recreation	177,143	
Other	22,531	
Discount on Bonds Issued	6,438	
Interest on Long-Term Debt	35,132	
Water		345,102
Sewer		87,656
Garbage		65,288
<b>Total Expenses</b>	<u>776,457</u>	<u>498,047</u>
<b>Net Change in Position</b>	<u>113,848</u>	<u>(232,273)</u>
	=====	=====

Property taxes constituted 8%, other taxes 44%, unrestricted intergovernmental 7%, operating grants and contributions 11% and charges for services made up 24% of the total revenues of all activities of the city for the fiscal year ended December 31, 2014.

General government constituted 10%, public safety 5%, streets and public works 20%, and enterprise 39% of total expenses for all activities during the fiscal year ended December 31, 2014.

Changes in Net Position  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	23,041	235,302
Operating Grants and Contributions	129,283	
<u>General Revenues:</u>		
Property Taxes	103,341	
Other Taxes	491,771	
Intergovernmental - Unrestricted	81,403	
Interest Earnings and Other Revenue	64,238	4,863
<b>Total Revenues</b>	<u>893,077</u>	<u>240,165</u>
<b>Expenses</b>		
General Government	266,275	
Public Safety	55,992	
Streets and Public Works	239,917	
Urban and Economic Development	74,600	
Health and Welfare	679	
Culture and Recreation	135,346	
Other	22,227	
Interest on Long-Term Debt	40,233	
Water		216,421
Sewer		52,642
Garbage		59,874
<b>Total Expenses</b>	<u>835,268</u>	<u>328,937</u>
<b>Net Change in Position</b>	<u>57,809</u> =====	<u>(88,773)</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, 2015

	Total Cost Year Ended <u>Dec. 31, 2015</u>	Net Cost Year Ended <u>Dec. 31, 2015</u>
General Government	119,105	109,925
Public Safety	73,889	61,110
Streets and Public Works	249,171	(175,066)
Urban and Economic Development	65,557	65,557
Health and Welfare	5,062	5,062
Culture and Recreation	146,766	145,806
Other	24,282	23,982
Discount on Bonds Issued	34,417	34,417
Interest on Long-Term Debt	17,700	(34,269)
Total Expenses	<u>735,948</u> =====	<u>236,524</u> =====

Total and Net Cost of Services  
As of December 31, 2014

	Total Cost Year Ended <u>Dec. 31, 2014</u>	Net Cost Year Ended <u>Dec. 31, 2014</u>
General Government	133,427	124,423
Public Safety	64,346	53,672
Streets and Public Works	250,469	174,677
Urban and Economic Development	81,400	81,400
Health and Welfare	5,571	5,571
Culture and Recreation	177,143	176,351
Other	22,531	22,531
Discount on Bonds Issued	6,438	6,438
Interest on Long-Term Debt	35,132	(15,406)
Total Expenses	<u>776,457</u> =====	<u>629,658</u> =====

#### 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 \$1,271,434 and expenditures of \$4,110,310 for the year ended December 31, 2015. For the year ended December 31, 2014, the city's governmental funds had total revenue of \$890,305 and expenditures of \$1,259,648. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$940,609. As of December 31, 2014, the unassigned fund balance of the city's general fund was \$888,988 and total unassigned fund balances for all the city's governmental funds was \$885,179.

## GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2015 and 2014, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2015 was \$34,582 less than budgeted. Actual expenditures for the year ended December 31, 2015 were under budget by \$34,126. This variance was due mainly to the city overestimating appropriations for general government purposes.

Actual revenue for the year ended December 31, 2014 was \$26,897 more than budgeted. Actual expenditures for the year ended December 31, 2014 were over budget by \$22,643.

## CAPITAL ASSETS

As of December 31, 2015 and 2014, the city had \$6,005,884 and \$2,741,096, respectively, invested in capital assets. The following tables show the balances, for governmental activities, as of December 31, 2015, 2014 and 2013.

Table IV

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Construction in Progress	3,396,000	
Buildings and Infrastructure	941,503	1,610,292
Machinery and Vehicles	58,089	
Total (net of depreciation)	<u>4,395,592</u> =====	<u>1,610,292</u> =====

This total represents an increase of \$3,264,788 in capital assets from January 1, 2015. The increase in capital assets was due to a storm sewer improvement project.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	1,021,633	1,650,133
Machinery and Vehicles	68,330	1,000
Total (net of depreciation)	<u>1,089,963</u> =====	<u>1,651,133</u> =====

This total represents a decrease of \$131,213 in capital assets from January 1, 2014.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	1,101,763	1,689,975
Machinery and Vehicles	78,571	2,000
Total (net of depreciation)	<u>1,180,334</u> =====	<u>1,691,975</u> =====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 to the audited financial statements which follow this analysis.

**DEBT ADMINISTRATION**

As of December 31, 2015, the city had \$4,120,000 in outstanding debt of which \$3,590,000 was due within one year. As of December 31, 2014, the city had \$720,000 in outstanding debt of which \$100,000 was due within one year. During fiscal years 2015 and 2014, the city issued two new long-term debt obligations.

Special Assessment Bonds Payable in the amount of \$515,000. The city issued the Refunding Improvement Bonds of 2014 to refinance the Refunding Improvement Bonds of 2006 and the Refunding Improvement Bonds of 2007. These bonds will have a final payment on May 1, 2022.

Special Assessment Bonds Payable in the amount of \$3,500,000. The city issued the Loan Anticipation Temporary Improvement Bonds of 2015 to fund a storm sewer improvement project. These bonds are due in full on September 1, 2016 and will be paid with the proceeds from the Refunding Improvement Bonds of 2016.

For a detailed breakdown of the long-term debt, readers are referred to Note 7 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 Diane Schell, City Auditor, Underwood, ND.

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
<b>ASSETS:</b>					
Cash, Cash Equivalents and Investments	2,126,770.07	462,662.27	2,589,432.34	36,803.19	48,631.45
Capital Assets (net of accumulated depreciation):					
Construction in Progress	3,396,000.00		3,396,000.00		
Buildings and Infrastructure	941,503.00	1,610,292.00	2,551,795.00	433,336.00	
Machinery and Vehicles	58,089.00		58,089.00		
Total Capital Assets	4,395,592.00	1,610,292.00	6,005,884.00	433,336.00	
Total Assets	6,522,362.07	2,072,954.27	8,595,316.34	470,139.19	48,631.45
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Changes in Resources Related to Pensions	10,432.00		10,432.00		
<b>LIABILITIES:</b>					
Long-Term Liabilities:					
Due Within One Year:					
General Obligation Bonds Payable	15,000.00		15,000.00		
Special Assessment Bonds Payable	3,575,000.00		3,575,000.00		
Revenue Bonds Payable				8,190.22	
Due After One Year:					
General Obligation Bonds Payable	175,000.00		175,000.00		
Special Assessment Bonds Payable	355,000.00		355,000.00		
Revenue Bonds Payable				437,350.97	
Net Pension Liability	57,550.00		57,550.00		
Total Liabilities	4,177,550.00		4,177,550.00	445,541.19	
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Changes in Resources Related to Pensions	11,234.00		11,234.00		
<b>NET POSITION:</b>					
Net Investment in Capital Assets	275,592.00	1,610,292.00	1,885,884.00	(12,205.19)	
Restricted for:					
Debt Service	79,293.04		79,293.04		
Special Purposes	1,106,868.51		1,106,868.51		
Unrestricted	882,256.52	462,662.27	1,344,918.79	36,803.19	48,631.45
Total Net Position	2,344,010.07	2,072,954.27	4,416,964.34	24,598.00	48,631.45

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



CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
<b>ASSETS:</b>					
Cash, Cash Equivalents and Investments	1,729,490.91	273,059.93	2,002,550.84	30,853.25	36,192.39
Capital Assets (net of accumulated depreciation):					
Buildings and Infrastructure	1,021,633.00	1,650,133.00	2,671,766.00	441,669.00	
Machinery and Vehicles	68,330.00	1,000.00	69,330.00		
Total Capital Assets	1,089,963.00	1,651,133.00	2,741,096.00	441,669.00	
Total Assets	2,819,453.91	1,924,192.93	4,743,646.84	472,522.25	36,192.39
<b>LIABILITIES:</b>					
Long-Term Liabilities:					
Due Within One Year:					
General Obligation Bonds Payable	15,000.00		15,000.00		
Special Assessment Bonds Payable	85,000.00		85,000.00		
Revenue Bonds Payable				7,791.59	
Due After One Year:					
General Obligation Bonds Payable	190,000.00		190,000.00		
Special Assessment Bonds Payable	430,000.00		430,000.00		
Revenue Bonds Payable				445,541.19	
Total Liabilities	720,000.00		720,000.00	453,332.78	
<b>NET POSITION:</b>					
Net Investment in Capital Assets	369,963.00	1,651,133.00	2,021,096.00	(11,663.78)	
Restricted for:					
Debt Service	38,809.66		38,809.66		
Water Pipeline		571.64	571.64		
Special Purposes	805,502.20		805,502.20		
Unrestricted	885,179.05	272,488.29	1,157,667.34	30,853.25	36,192.39
Total Net Position	2,099,453.91	1,924,192.93	4,023,646.84	19,189.47	36,192.39

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2015

Net (Expense) Revenue and Changes in Net Position						
	Program Revenues			Primary Government		Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
<u>Primary Government:</u>						
<u>Governmental Activities:</u>						
General Government	119,104.93	9,179.95		(109,924.98)		(109,924.98)
Public Safety	73,888.68	12,779.00		(61,109.68)		(61,109.68)
Streets and Public Works	249,170.64	1,540.00	422,696.15	175,065.51		175,065.51
Urban and Economic Development	65,557.00			(65,557.00)		(65,557.00)
Health and Welfare	5,062.27			(5,062.27)		(5,062.27)
Culture and Recreation	146,766.01		722.00	(145,805.61)		(145,805.61)
Other	24,282.15	300.00		(23,982.15)		(23,982.15)
Discount on Bonds Issued	34,416.67			(34,416.67)		(34,416.67)
Interest on Long-Term Debt	17,699.75		51,968.81	34,269.06		34,269.06
Total Governmental Activities	735,948.10	24,037.35	475,386.96	(236,523.79)		(236,523.79)
<u>Business-Type Activities:</u>						
Water	211,709.34	154,708.94		(57,000.40)		(57,000.40)
Sewer	70,234.50	46,589.54		(23,644.96)		(23,644.96)
Garbage	71,683.49	69,562.74		(2,120.75)		(2,120.75)
Total Business-Type Activities	353,627.33	270,861.22		(82,766.11)		(82,766.11)
Total Primary Government	1,089,575.43	294,898.57	475,386.96	(236,523.79)	(82,766.11)	(319,289.90)
<u>Component Units:</u>						
Housing Authority	36,159.77	41,490.00				
Economic Development	61,026.63		73,256.44			
Total Component Units	97,186.40	41,490.00	73,256.44			
					5,330.23	12,229.81
					5,330.23	12,229.81

General Revenues:

<u>Taxes:</u>				
Property taxes; levied for general purposes	64,072.94			64,072.94
Property taxes; levied for special purposes	41,474.47			41,474.47
City sales taxes	375,005.40			375,005.40
Coal severance taxes	89,205.85			89,205.85
Coal conversion taxes	35,769.27			35,769.27
Telecommunications taxes	2,849.95			2,849.95
Cigarette taxes	2,525.16			2,525.16
Oil and gas production taxes	26,632.46			26,632.46
Homestead credit taxes	2,492.98			2,492.98
Intergovernmental revenue not restricted to specific programs	88,815.77			88,815.77
Earnings on investments and other revenue	43,165.26	2,099.89	78.30	45,265.15
Transfers	(229,427.56)	229,427.56		
Total General Revenues and Transfers	542,581.95	231,527.45	78.30	774,109.40
Change in Net Position	306,058.16	148,761.34	5,408.53	12,439.06
Net Position - January 1	2,099,453.91	1,924,192.93	19,189.47	36,192.39
Prior Period Adjustment, see Note 11	(61,502.00)			
Net Position - January 1, as Restated	2,037,951.91	1,924,192.93		
Net Position - December 31	2,344,010.07	2,072,954.27	24,598.00	48,631.45

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2014

Net (Expense) Revenue and Changes in Net Position

	Program Revenues			Primary Government		Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Housing Authority	Economic Development
<u>Functions/Programs</u>							
<u>Primary Government:</u>							
<u>Governmental Activities:</u>							
General Government	133,427.37	9,004.47		(124,422.90)		(124,422.90)	
Public Safety	64,345.80	10,673.47		(53,672.33)		(53,672.33)	
Streets and Public Works	250,468.65		75,791.26	(174,677.39)		(174,677.39)	
Urban and Economic Development	81,400.00			(81,400.00)		(81,400.00)	
Health and Welfare	5,570.83			(5,570.83)		(5,570.83)	
Culture and Recreation	177,143.12		791.69	(176,351.43)		(176,351.43)	
Other	22,531.46			(22,531.46)		(22,531.46)	
Discount on Bonds Issued	6,437.50			(6,437.50)		(6,437.50)	
Interest on Long-Term Debt	35,132.15		50,538.17	15,406.02		15,406.02	
<b>Total Governmental Activities</b>	<b>776,456.88</b>	<b>19,677.94</b>	<b>127,121.12</b>	<b>(629,657.82)</b>		<b>(629,657.82)</b>	
<u>Business-Type Activities:</u>							
Water	345,101.94	147,069.93			(198,032.01)	(198,032.01)	
Sewer	87,656.47	46,101.75			(41,554.72)	(41,554.72)	
Garbage	65,288.39	65,385.14			96.75	96.75	
<b>Total Business-Type Activities</b>	<b>498,046.80</b>	<b>258,556.82</b>			<b>(239,489.98)</b>	<b>(239,489.98)</b>	
<b>Total Primary Government</b>	<b>1,274,503.68</b>	<b>278,234.76</b>	<b>127,121.12</b>	<b>(629,657.82)</b>	<b>(239,489.98)</b>	<b>(869,147.80)</b>	
<u>Component Units:</u>							
Housing Authority	40,023.47	36,290.00	114,716.51			(3,733.47)	(8,009.27)
Economic Development	122,725.78						
<b>Total Component Units</b>	<b>162,749.25</b>	<b>36,290.00</b>	<b>114,716.51</b>			<b>(3,733.47)</b>	<b>(8,009.27)</b>

General Revenues:

Taxes:

Property taxes; levied for general purposes  
Property taxes; levied for special purposes  
City sales taxes  
Coal severance taxes  
Coal conversion taxes  
Financial institution taxes  
Telecommunications taxes  
Cigarette taxes  
Oil and gas production taxes  
Homestead credit taxes  
Intergovernmental revenue not restricted  
to specific programs  
Earnings on investments and other revenue

54,542.48  
37,575.52  
307,248.47  
87,042.76  
41,065.98  
6,293.65  
2,849.95  
2,564.73  
60,260.52  
2,086.50  
  
86,462.03  
55,513.22

93.73 3,261.97

Total General Revenues

743,505.81 7,216.83 750,722.64

Change in Net Position

113,847.99 (232,273.15) (118,425.16)

Net Position - January 1

1,985,605.92 2,156,466.08 4,142,072.00

Net Position - December 31

2,099,453.91 1,924,192.93 4,023,646.84

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2015

Major Funds

	General	Municipal Highway	Sales Tax	Surge Fund	Flood Water Drainage	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
Cash, Cash Equivalents and Investments	940,608.52	255,987.48	304,085.19	349,549.36	70,313.52	206,226.00	2,126,770.07
<b>FUND BALANCES:</b>							
Restricted for:							
General Government						54,395.15	54,395.15
Streets and Public Works						675,850.36	675,850.36
Urban and Economic Development						304,085.19	304,085.19
Culture and Recreation						15,416.75	15,416.75
Health and Welfare						21,718.98	21,718.98
Emergency Purposes						15,488.85	15,488.85
Debt Service						79,293.04	79,293.04
Other Purposes						19,913.23	19,913.23
Unassigned	940,608.52						940,608.52
<b>Total Fund Balances</b>	940,608.52	255,987.48	304,085.19	349,549.36	70,313.52	206,226.00	2,126,770.07

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

CITY OF UNDERWOOD  
Underwood, North Dakota  
Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2014

	Major Funds					Total
	General	Municipal Highway	Sales Tax	2014 Refunding Bonds	Other Governmental Funds	Governmental Funds
<b>ASSETS:</b>						
Cash, Cash Equivalents and Investments	885,179.05	255,313.76	415,172.76		173,825.34	1,729,490.91
Interfund Receivables	3,808.80					3,808.80
<b>Total Assets</b>	<b>888,987.85</b>	<b>255,313.76</b>	<b>415,172.76</b>	<b>-0-</b>	<b>173,825.34</b>	<b>1,733,299.71</b>
=====						
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities</b>						
Interfund Payables				1,950.51	1,858.29	3,808.80
<b>Fund Balances</b>						
Restricted for:						
General Government					67,171.77	67,171.77
Streets and Public Works		255,313.76			992.42	256,306.18
Urban and Economic Development			415,172.76			415,172.76
Culture and Recreation					12,041.90	12,041.90
Health and Welfare					21,689.94	21,689.94
Emergency Purposes					15,459.00	15,459.00
Debt Service					38,809.66	38,809.66
Other Purposes					17,660.65	17,660.65
Unassigned	888,987.85			(1,950.51)	(1,858.29)	885,179.05
<b>Total Fund Balances</b>	<b>888,987.85</b>	<b>255,313.76</b>	<b>415,172.76</b>	<b>(1,950.51)</b>	<b>171,967.05</b>	<b>1,729,490.91</b>
=====						
<b>Total Liabilities and Fund Balances</b>	<b>888,987.85</b>	<b>255,313.76</b>	<b>415,172.76</b>	<b>-0-</b>	<b>173,825.34</b>	<b>1,733,299.71</b>
=====						

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2015

Total Fund Balances for Governmental Funds		2,126,770.07
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	5,642,565.00	
Less Accumulated Depreciation	(1,246,973.00)	
Net Capital Assets		4,395,592.00
The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.		
Total Deferred Outflows of Resources	10,432.00	
Total Deferred Inflows of Resources	(11,234.00)	
Net Deferred Outflows/Inflows of Resources		(802.00)
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, 2015 are:		
General Obligation Bonds Payable	(190,000.00)	
Special Assessments Bonds Payable	(3,930,000.00)	
Net Pension Liability	(57,550.00)	
Total Long-Term Liabilities		(4,177,550.00)
Total Net Position of Governmental Activities		2,344,010.07
		=====

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



CITY OF UNDERWOOD  
Underwood, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2014

Total Fund Balances for Governmental Funds	1,729,490.91
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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	2,246,565.00	
Less Accumulated Depreciation	(1,156,602.00)	
	<hr/>	
Net Capital Assets		1,089,963.00

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, 2014 are:

General Obligation Bonds Payable	(205,000.00)	
Special Assessments Bonds Payable	(515,000.00)	
	<hr/>	
Total Long-Term Liabilities		(720,000.00)

Total Net Position of Governmental Activities	2,099,453.91
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The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2015

	Major Funds					
	General	Municipal Highway	Sales Tax	Surge Fund	Flood Water Drainage	Total Governmental Funds
<b>Revenues:</b>						
Taxes	66,922.89		375,005.40			483,402.76
Special Assessments						51,968.81
Licenses, Permits and Fees	3,868.00					3,868.00
Intergovernmental	244,489.89	73,174.61		349,521.54		668,859.64
Charges for Services	5,311.95				1,540.00	7,151.95
Fines and Forfeits	12,779.00				238.40	13,017.40
Miscellaneous	11,776.77	504.29	360.71	27.82	129.20	43,165.26
<b>Total Revenues</b>	<b>345,148.50</b>	<b>73,678.90</b>	<b>375,366.11</b>	<b>349,549.36</b>	<b>1,669.20</b>	<b>1,271,433.82</b>
<b>Expenditures:</b>						
Current:						
General Government	91,138.83					116,587.93
Public Safety	73,588.68					73,588.68
Streets and Public Works	80,094.08	93,005.18			939.01	177,506.64
Urban and Economic Development			65,557.00			65,557.00
Health and Welfare	5,062.27					5,062.27
Culture and Recreation	11,720.86		104,769.40			134,026.01
Other	20,573.28		430.00			24,282.15
Capital Outlay					3,396,000.00	3,396,000.00
Debt Service:						
Principal						100,000.00
Interest						17,699.75
<b>Total Expenditures</b>	<b>282,178.00</b>	<b>93,005.18</b>	<b>170,756.40</b>		<b>3,396,939.01</b>	<b>4,110,310.43</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>62,970.50</b>	<b>(19,326.28)</b>	<b>204,609.71</b>	<b>349,549.36</b>	<b>(3,395,269.81)</b>	<b>(2,838,876.61)</b>

<u>Other Financing Sources (Uses):</u>					
Transfers In	69,610.05	20,000.00		200,069.97	289,680.02
Transfers Out	(80,959.88)		(315,697.28)	(122,450.42)	(519,107.58)
Special Assessments Bonds Issued				3,500,000.00	3,500,000.00
Discount on Bonds Issued				(34,416.67)	(34,416.67)
Total Other Financing Sources (Uses)	(11,349.83)	20,000.00	(315,697.28)	3,465,583.33	3,236,155.77
Net Change in Fund Balances	51,620.67	673.72	(111,087.57)	349,549.36	397,279.16
Fund Balance - January 1	888,987.85	255,313.76	415,172.76	-0-	1,729,490.91
Fund Balance - December 31	940,608.52	255,987.48	304,085.19	70,313.52	2,126,770.07
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The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2014

	Major Funds					
	General	Municipal Highway	Sales Tax	2014 Refunding Bonds	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	63,686.08		307,248.47		37,575.52	408,510.07
Special Assessments					50,538.17	50,538.17
Licenses, Permits and Fees	3,896.00				3,896.00	3,896.00
Intergovernmental	278,664.81	75,791.26			1,609.40	356,065.47
Charges for Services	5,108.47					5,108.47
Fines and Forfeits	10,444.00				229.47	10,673.47
Miscellaneous	16,798.05	3,956.25	472.30	1.89	34,284.73	55,513.22
<b>Total Revenues</b>	<b>378,597.41</b>	<b>79,747.51</b>	<b>307,720.77</b>	<b>1.89</b>	<b>124,237.29</b>	<b>890,304.87</b>
<b>Expenditures:</b>						
Current:						
General Government	101,525.71				26,234.66	127,760.37
Public Safety	64,045.80					64,045.80
Streets and Public Works	64,629.14	109,758.00	4,417.51			178,804.65
Urban and Economic Development			81,400.00			81,400.00
Health and Welfare	5,570.83					5,570.83
Culture and Recreation	15,329.72		119,316.16		29,757.24	164,403.12
Other	21,842.31				689.15	22,531.46
Debt Service:						
Principal				495,000.00	85,000.00	580,000.00
Interest				15,514.90	19,617.25	35,132.15
<b>Total Expenditures</b>	<b>272,943.51</b>	<b>109,758.00</b>	<b>205,133.67</b>	<b>510,514.90</b>	<b>161,298.30</b>	<b>1,259,648.38</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>105,653.90</b>	<b>(30,010.49)</b>	<b>102,587.10</b>	<b>(510,513.01)</b>	<b>(37,061.01)</b>	<b>(369,343.51)</b>

<u>Other Financing Sources (Uses):</u>				
Transfers In			35,450.00	35,450.00
Transfers Out	(35,450.00)			(35,450.00)
Special Assessment Bonds Issued		515,000.00		515,000.00
Discount on Bonds Issued		(6,437.50)		(6,437.50)
Total Other Financing Sources (Uses)	(35,450.00)	508,562.50	35,450.00	508,562.50
Net Change in Fund Balances	70,203.90	(30,010.49)	102,587.10	(1,611.01)
Fund Balance - January 1	818,783.95	285,324.25	312,585.66	173,578.06
Fund Balance - December 31	888,987.85	255,313.76	415,172.76	171,967.05
				1,729,490.91

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

CITY OF UNDERWOOD  
Underwood, 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, 2015

Net Change in Fund Balances - Total Governmental Funds	397,279.16
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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 capital outlay exceeded depreciation in the current year.

Current Year Capital Outlay	3,396,000.00	
Current Year Depreciation Expense	(90,371.00)	3,305,629.00

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 debt proceeds exceeded repayment of debt.

Debt Proceeds	(3,500,000.00)	
Repayment of Debt	100,000.00	(3,400,000.00)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease to Pension Expense	3,150.00

Change in Net Position of Governmental Activities	306,058.16

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

CITY OF UNDERWOOD  
Underwood, 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, 2014

Net Change in Fund Balances - Total Governmental Funds	139,218.99
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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		(90,371.00)	(90,371.00)
Current Year Depreciation Expense		<u>(90,371.00)</u>	

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		(515,000.00)	
Repayment of Debt		<u>580,000.00</u>	<u>65,000.00</u>

Change in Net Position of Governmental Activities	113,847.99 =====
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The accompanying notes are an integral part of these financial statements.

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2015

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash, Cash Equivalents and Investments	244,366.70	206,475.36	11,820.21	462,662.27
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,576,557.00	33,735.00		1,610,292.00
Total Assets	1,820,923.70	240,210.36	11,820.21	2,072,954.27
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,576,557.00	33,735.00		1,610,292.00
Unrestricted	244,366.70	206,475.36	11,820.21	462,662.27
Total Net Position	1,820,923.70	240,210.36	11,820.21	2,072,954.27

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



CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2014

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash, Cash Equivalents and Investments	91,925.83	167,194.40	13,939.70	273,059.93
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,615,533.00	34,600.00		1,650,133.00
Machinery and Vehicles	500.00	500.00		1,000.00
Total Noncurrent Assets	1,616,033.00	35,100.00		1,651,133.00
Total Assets	1,707,958.83	202,294.40	13,939.70	1,924,192.93
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,616,033.00	35,100.00		1,651,133.00
Restricted for Water Pipeline	571.64			571.64
Unrestricted	91,354.19	167,194.40	13,939.70	272,488.29
Total Net Position	1,707,958.83	202,294.40	13,939.70	1,924,192.93

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2015

	Major Enterprise Funds		Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer		
<b>Operating Revenues:</b>				
Charges for Services:				
Water Charges	154,708.94			154,708.94
Sewer Charges		46,589.54		46,589.54
Garbage Charges			69,562.74	69,562.74
<b>Total Operating Revenues</b>	<b>154,708.94</b>	<b>46,589.54</b>	<b>69,562.74</b>	<b>270,861.22</b>
<b>Operating Expenses:</b>				
Salaries	34,705.01	23,760.09		58,465.10
Health Insurance	7,188.46	3,594.12		10,782.58
FICA	2,963.71	2,058.66		5,022.37
Electricity	4,851.57	2,346.56		7,198.13
Natural Gas	701.08			701.08
Garbage			70,197.71	70,197.71
Computer Billing	1,492.49	1,492.54	1,480.84	4,465.87
Telephone	659.61	230.46		890.07
Gas and Oil	922.46	950.70		1,873.16
Water Purchase	87,948.02			87,948.02
Chemical Supplies		9,948.35		9,948.35
Operation, Repairs and Maintenance	29,549.51	24,343.70		53,893.21
Miscellaneous	1,251.42	144.32	4.94	1,400.68
Depreciation	39,476.00	1,365.00		40,841.00
<b>Total Operating Expenses</b>	<b>211,709.34</b>	<b>70,234.50</b>	<b>71,683.49</b>	<b>353,627.33</b>
<b>Operating Income (Loss)</b>	<b>(57,000.40)</b>	<b>(23,644.96)</b>	<b>(2,120.75)</b>	<b>(82,766.11)</b>
<b>Non-Operating Revenues:</b>				
Interest Income	501.33	174.25	1.26	676.84
Miscellaneous Revenue	36.38	1,386.67		1,423.05
<b>Total Non-Operating Revenues</b>	<b>537.71</b>	<b>1,560.92</b>	<b>1.26</b>	<b>2,099.89</b>
<b>Income (Loss) Before Transfers</b>	<b>(56,462.69)</b>	<b>(22,084.04)</b>	<b>(2,119.49)</b>	<b>(80,666.22)</b>
Transfers In	170,000.00	63,000.00		233,000.00
Transfers Out	(572.44)	(3,000.00)		(3,572.44)
<b>Change in Net Position</b>	<b>112,964.87</b>	<b>37,915.96</b>	<b>(2,119.49)</b>	<b>148,761.34</b>
<b>Net Position - January 1</b>	<b>1,707,958.83</b>	<b>202,294.40</b>	<b>13,939.70</b>	<b>1,924,192.93</b>
<b>Net Position - December 31</b>	<b>1,820,923.70</b>	<b>240,210.36</b>	<b>11,820.21</b>	<b>2,072,954.27</b>

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2014

	Major Enterprise Funds		Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer		
<b>Operating Revenues:</b>				
Charges for Services:				
Water Charges	147,069.93			147,069.93
Sewer Charges		46,101.75		46,101.75
Garbage Charges			65,385.14	65,385.14
<b>Total Operating Revenues</b>	<b>147,069.93</b>	<b>46,101.75</b>	<b>65,385.14</b>	<b>258,556.82</b>
<b>Operating Expenses:</b>				
Salaries	36,069.67	24,190.81		60,260.48
Health Insurance	6,917.36	3,708.56		10,625.92
FICA	2,986.63	2,027.66		5,014.29
Electricity	4,674.27	3,182.70		7,856.97
Natural Gas	940.04			940.04
Engineering	7,079.45	7,011.95		14,091.40
Garbage			63,823.63	63,823.63
Computer Billing	1,341.18	1,411.37	1,411.42	4,163.97
Telephone	637.76	216.74		854.50
Gas and Oil	1,648.83	3,101.70		4,750.53
Water Purchases	136,960.22			136,960.22
Printing and Publishing	406.02			406.02
Chemical Supplies	815.85	11,511.51		12,327.36
Operation, Repairs and Maintenance	103,631.95	28,025.04		131,656.99
Miscellaneous	1,515.71	1,903.43	53.34	3,472.48
Depreciation	39,477.00	1,365.00		40,842.00
<b>Total Operating Expenses</b>	<b>345,101.94</b>	<b>87,656.47</b>	<b>65,288.39</b>	<b>498,046.80</b>
<b>Operating Income (Loss)</b>	<b>(198,032.01)</b>	<b>(41,554.72)</b>	<b>96.75</b>	<b>(239,489.98)</b>
<b>Non-Operating Revenues:</b>				
Interest Income	478.32	258.37	1.51	738.20
Miscellaneous Revenue	246.24	916.23	5,316.16	6,478.63
<b>Total Non-Operating Revenues</b>	<b>724.56</b>	<b>1,174.60</b>	<b>5,317.67</b>	<b>7,216.83</b>
<b>Income (Loss) Before Transfers</b>	<b>(197,307.45)</b>	<b>(40,380.12)</b>	<b>5,414.42</b>	<b>(232,273.15)</b>
Transfers In		3,000.00		3,000.00
Transfers Out		(3,000.00)		(3,000.00)
<b>Change in Net Position</b>	<b>(197,307.45)</b>	<b>(40,380.12)</b>	<b>5,414.42</b>	<b>(232,273.15)</b>
<b>Net Position - January 1</b>	<b>1,905,266.28</b>	<b>242,674.52</b>	<b>8,525.28</b>	<b>2,156,466.08</b>
<b>Net Position - December 31</b>	<b>1,707,958.83</b>	<b>202,294.40</b>	<b>13,939.70</b>	<b>1,924,192.93</b>

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2015

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>Cash flows from operating activities:</u>				
Receipts from customers	154,708.94	46,589.54	69,562.74	270,861.22
Payments to suppliers	(137,528.33)	(45,109.41)	(71,683.49)	(254,321.23)
Payments to employees	(34,705.01)	(23,760.09)		(58,465.10)
Net cash provided (used) by operating activities	(17,524.40)	(22,279.96)	(2,120.75)	(41,925.11)
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts	36.38	1,386.67		1,423.05
Transfers in	170,000.00	63,000.00		233,000.00
Transfers out	(572.44)	(3,000.00)		(3,572.44)
Net cash provided (used) by noncapital financing activities	169,463.94	61,386.67		230,850.61
<u>Cash flows from investing activities:</u>				
Interest income	501.33	174.25	1.26	676.84
Net increase in cash and cash equivalents	152,440.87	39,280.96	(2,119.49)	189,602.34
Cash and cash equivalents, January 1	91,925.83	167,194.40	13,939.70	273,059.93
Cash and cash equivalents, December 31	244,366.70	206,475.36	11,820.21	462,662.27
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating (loss)	(57,000.40)	(23,644.96)	(2,120.75)	(82,766.11)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	39,476.00	1,365.00		40,841.00
Net cash provided (used) by operating activities	(17,524.40)	(22,279.96)	(2,120.75)	(41,925.11)
=====				

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2014

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>Cash flows from operating activities:</u>				
Receipts from customers	147,069.93	46,101.75	65,385.14	258,556.82
Payments to suppliers	(269,555.27)	(62,100.66)	(65,288.39)	(396,944.32)
Payments to employees	(36,069.67)	(24,190.81)		(60,260.48)
Net cash provided (used) by operating activities	(158,555.01)	(40,189.72)	96.75	(198,647.98)
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts	246.24	916.23	5,316.16	6,478.63
Transfers in		3,000.00		3,000.00
Transfers out		(3,000.00)		(3,000.00)
Net cash provided (used) by noncapital financing activities	246.24	916.23	5,316.16	6,478.63
<u>Cash flows from investing activities:</u>				
Interest income	478.32	258.37	1.51	738.20
Net increase in cash and cash equivalents	(157,830.45)	(39,015.12)	5,414.42	(191,431.15)
Cash and cash equivalents, January 1	249,756.28	206,209.52	8,525.28	464,491.08
Cash and cash equivalents, December 31	91,925.83	167,194.40	13,939.70	273,059.93
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(198,032.01)	(41,554.72)	96.75	(239,489.98)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	39,477.00	1,365.00		40,842.00
Net cash provided (used) by operating activities	(158,555.01)	(40,189.72)	96.75	(198,647.98)
=====				

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Agency Fund  
December 31, 2015

	Agency Fund
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	74,017.58
<u>Liabilities:</u>	
Due to Other Governments	74,017.58
	=====

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Agency Fund  
December 31, 2014

	Agency Fund
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	51,781.20
<u>Liabilities:</u>	
Due to Other Governments	51,781.20
	=====

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Notes to the Financial Statements  
December 31, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Underwood operates under a city commission 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, the following is a brief review of each potential component unit addressed defining the government's reporting entity.

Discretely Presented Component Units: The component units' columns in the basic financial statements include the financial data of the city's two component units. These units are reported in separate columns to emphasize that they are legally separate from the city.

Underwood Housing Authority: The Underwood Housing Authority's governing board is appointed by the city's governing board. The housing authority has the authority to issue its own debt.

Underwood Area Economic Development Authority: The Underwood Area Economic Development Corporation's governing board is not appointed by the city's governing board. However, the city commission approves the UAEDC's annual budget and thus determines the amount of funding the city will provide to UAEDC from the city sales tax.

The financial statements of the discretely presented component units are presented in the basic financial statements.



## 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 Underwood and its component units. 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*, *proprietary* and *fiduciary* - 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.

*Municipal Highway.* This fund accounts for the accumulation of the highway tax distribution to be used for street repairs and maintenance.

*Sales Tax.* This fund accounts for the accumulation of sales tax to be used for the purpose of community and economic development for the city and one third of collections paid to the Underwood Park District.

*Surge Fund.* This fund accounts for state funds received for the purpose of city infrastructure improvements.

*Flood Water Drainage.* This fund accounts for the issuance of special assessment bonds which were issued to fund a storm sewer improvement project.

*2014 Refunding Bonds.* This fund accounts for the accumulation of resources to pay the principal and interest payments of the Refunding Improvement Bonds of 2014.

The city reports the following major enterprise funds:

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

**Sewer.** This fund accounts for the activities of the city's sewer collection system.

The city reports the following fund type:

**Agency Fund.** This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency fund is used to account for various deposits of the USDA Revolving Loan Fund.

### 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, business-like and fiduciary fund 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	20 to 75 years
Machinery and Vehicles	10 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. Pension

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

## I. 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.

#### J. 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.

#### K. Use of Estimates

The preparation of financial statements in conformity with the special reporting framework (SRF) 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, 2015 the city's carrying amount of deposits was \$2,663,450 and the bank balance was \$2,674,277. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,424,277 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2014 the city's carrying amount of deposits was \$2,054,332 and the bank balance was \$2,085,751. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$1,835,751 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, 2015 the city held certificates of deposit in the amount of \$1,614,500, which are all considered deposits.

At December 31, 2014 the city held certificates of deposit in the amount of \$1,593,500, 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 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by a negative cash balance in various funds. The amounts shown as interfund payables represent the amount of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2014 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General	3,808.80	
2014 Refunding Bonds		1,950.51
Recreation		1,858.29

Note 5 CAPITAL ASSETS

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

Primary Government

	<u>2015</u>		
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>
<b>Governmental Activities:</b>			<u>Balance December 31</u>
<i>Capital assets not being depreciated:</i>			
Construction in Progress		3,396,000	3,396,000
<i>Capital assets being depreciated:</i>			
Buildings and Infrastructure	1,957,300		1,957,300
Machinery and Vehicles	289,265		289,265
Total	2,246,565		2,246,565
<i>Less accumulated depreciation for:</i>			
Buildings and Infrastructure	935,667	80,130	1,015,797
Machinery and Vehicles	220,935	10,241	231,176
Total	1,156,602	90,371	1,246,973
Total capital assets being depreciated, net	1,089,963	(90,371)	999,592
Governmental Activities Capital Assets, Net	1,089,963	3,305,629	-0-
	=====	=====	=====

<u>2014</u>				
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
Capital assets being depreciated:				
Buildings and Infrastructure	1,957,300			1,957,300
Machinery and Vehicles	289,265			289,265
Total	<u>2,246,565</u>			<u>2,246,565</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	855,537	80,130		935,667
Machinery and Vehicles	210,694	10,241		220,935
Total	<u>1,066,231</u>	<u>90,371</u>		<u>1,156,602</u>
Governmental Activities Capital Assets, Net	<u>1,180,334</u>	<u>(90,371)</u>	<u>-0-</u>	<u>1,089,963</u>

<u>2015</u>				
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Business-type Activities:</b>				
Capital assets being depreciated:				
Buildings and Infrastructure	2,033,750			2,033,750
Machinery and Vehicles	26,055			26,055
Total	<u>2,059,805</u>			<u>2,059,805</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	383,617	39,841		423,458
Machinery and Vehicles	25,055	1,000		26,055
Total	<u>408,672</u>	<u>40,841</u>		<u>449,513</u>
Business-type Activities Capital Assets, Net	<u>1,651,133</u>	<u>(40,841)</u>	<u>-0-</u>	<u>1,610,292</u>



2014

	Balance January 1	Increases	Decreases	Balance December 31
<b>Business-type Activities:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	2,033,750			2,033,750
Machinery and Vehicles	26,055			26,055
Total	2,059,805			2,059,805
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	343,775	39,842		383,617
Machinery and Vehicles	24,055	1,000		25,055
Total	367,830	40,842		408,672
Business-type Activities Capital Assets, Net	1,691,975	(40,842)	-0-	1,651,133
	=====	=====	=====	=====

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

	<u>2015</u>	<u>2014</u>
<u>Governmental Activities:</u>		
General Government	5,667	5,667
Public Safety	300	300
Streets and Public Works	71,664	71,664
Culture and Recreation	12,740	12,740
Total	90,371	90,371
	=====	=====
<u>Business-type Activities:</u>		
Water	39,476	39,477
Sewer	1,365	1,365
Total	40,841	40,842
	=====	=====

Discretely Presented Component Unit

	<u>2015</u>			
	Balance			Balance
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	500,000			500,000
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	58,331	8,333		66,664
Capital Assets, Net	441,669	(8,333)	- 0 -	433,336

	<u>2014</u>			
	Balance			Balance
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>
Capital assets being depreciated:				
Buildings and Infrastructure	500,000			500,000
Less accumulated depreciation for:				
Buildings and Infrastructure	49,998	8,333		58,331
Capital Assets, Net	450,002	(8,333)	-0-	441,669

Depreciation expense was charged to functions/programs of the discretely presented component unit as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
<u>Disc. Presented Component Unit:</u>		
Housing Authority	8,333	8,333

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2015 and 2014, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

	<u>2015</u>				
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>			<u>December 31</u>	<u>One Year</u>
General Obligation Bonds	205,000		15,000	190,000	15,000
Special Assessment Bonds	515,000	3,500,000	85,000	3,930,000	3,575,000
Total	<u>720,000</u>	<u>3,500,000</u>	<u>100,000</u>	<u>4,120,000</u>	<u>3,590,000</u>
	=====	=====	=====	=====	=====

	<u>2014</u>				
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>			<u>December 31</u>	<u>One Year</u>
General Obligation Bonds	220,000		15,000	205,000	15,000
Special Assessment Bonds	565,000	515,000	565,000	515,000	85,000
Total	<u>785,000</u>	<u>515,000</u>	<u>580,000</u>	<u>720,000</u>	<u>100,000</u>
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2015 consists of the following:

Governmental Activities:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2015, is as follows:

General Obligation Bonds. The city has issued general obligation bonds to provide funds for the construction/renovation of the city's swimming pool. General obligation bonds outstanding at December 31, 2015 are as follows:

\$280,000 General Obligation Swimming Pool	
Bonds of 2007 due in annual installments of	
\$15,000 to \$20,000 through May 1, 2026;	
interest is at 4.25%.	190,000.00
	=====

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>December 31</u>		
2016	15,000.00	7,757.00
2017	15,000.00	7,119.00
2018	15,000.00	6,481.00
2019	15,000.00	5,844.00
2020	15,000.00	5,207.00
2021-2025	95,000.00	14,769.00
2026	20,000.00	425.00
Total	<u>190,000.00</u>	<u>47,602.00</u>
	=====	=====

Special Assessment Debt. The city has issued special assessment bonds to provide funds for various improvement projects. Special assessment bonds outstanding at December 31, 2015, are as follows:

\$515,000 Refunding Improvement Bonds of 2014, due in annual installments of \$40,000 to \$75,000 through May 1, 2022; interest is at 1.1% to 2.05%.	430,000.00
\$3,500,000 Loan Anticipation Temporary Improvement Bonds of 2015, due in final installment on September 1, 2016; interest is at 1%.	3,500,000.00
Total	<u>3,930,000.00</u> =====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	3,575,000.00	53,202.91
2017	75,000.00	5,487.50
2018	70,000.00	4,690.00
2019	70,000.00	3,587.50
2020	50,000.00	2,357.50
2021-2022	90,000.00	1,742.50
Total	<u>3,930,000.00</u> =====	<u>71,067.91</u> =====

Discretely Presented Component Unit Debt

Changes in Long-Term Liabilities. During the years ended December 31, 2015 and 2014, the following changes occurred in liabilities reported in the long-term liabilities - Component Unit:

	<u>2015</u>				
	<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 Payable	453,333	-0-	7,792	445,541	8,190
	=====	=====	=====	=====	=====
	<u>2014</u>				
	<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 Payable	460,745	-0-	7,412	453,333	7,792
	=====	=====	=====	=====	=====

Revenue Bond Debt. The Underwood Housing Authority has issued revenue bonds to provide funds for community housing. Revenue bonds outstanding at December 31, 2015, are as follows:

\$500,000 Multifamily Housing Revenue Bonds of 2006, due in monthly installments of \$2,523.44 through August 1, 2042; interest is at 5%.	445,541.19
	=====

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>
2016	8,190.22	22,091.06
2017	8,609.25	21,672.03
2018	9,049.72	21,231.56
2019	9,512.72	20,768.56
2020	9,999.40	20,281.88
2021-2025	58,214.83	93,191.57
2026-2030	74,710.50	76,695.90
2031-2035	95,880.39	55,526.01
2036-2030	123,048.92	28,357.48
2041-2042	48,325.24	2,143.56
Total	445,541.19	361,959.61
	=====	=====

Note 7 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the years ended December 31:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2015</u>		
General	69,610.05	
Social Security		12,628.97
Pension		2,534.63
Advertising		7,767.14
Insurance Reserve		18,153.71
Water Pipeline		572.44
#11-2002 Special Assessments		26,959.88
Curb, Gutter and Sidewalk Res.		993.28
To close funds.		
Public Buildings	26,959.88	
General		26,959.88
To set-aside funds for future building improvements.		
Recreation	6,000.00	
Coal Severance		6,000.00
To subsidize expenditures.		
2014 Refunding Bonds	101,412.81	
Coal Severance		48,000.00
#12-2006 Special Assessments		22,518.53
Westridge Estates		30,894.28
To subsidize debt service payments.		
Flood Water Special Assess.	60,697.28	
Sales Tax		60,697.28
To pay out share of sales tax.		

Municipal Highway	20,000.00	
Cemetery	5,000.00	
Water Operating	170,000.00	
Sewer Operating	60,000.00	
Sales Tax		255,000.00

To subsidize expenditures.

Wastewater Replacement	3,000.00	
Sewer Operating		3,000.00

To set-aside funds for future projects.

December 31, 2014

Westridge Estates	35,450.00	
Coal Severance		35,450.00

To subsidize debt service payments.

Wastewater Replacement	3,000.00	
Sewer Operating		3,000.00

To set-aside funds for future projects.

Note 8 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2014:

<u>Special Revenue Fund</u>	
Recreation	(1,858.29)

<u>Debt Service Fund</u>	
2014 Refunding Bonds	(1,950.51)

The city plans on eliminating these deficits with future revenue collections and/or transfers from other funds.

Note 9 RISK MANAGEMENT

The City of Underwood 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 \$396,595 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 \$711,000 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 10 PENSION PLAN

##### North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by active membership of the NDPERS system; and one member elected by the retired public employees.

##### **Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

## **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

## **Refunds of Member Account Balance**

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

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

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

## **Member and Employer Contributions**

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



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

At December 31, 2015, the City of Underwood reported a liability of \$57,550 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2014 the city's proportion was .009067 percent.

For the year ended December 31, 2015 the city recognized pension expense of \$5,694. At December 31, 2015 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	1,866	
Net difference between projected and actual earnings on pension plan investments		11,234
City contributions subsequent to the measurement date (see below)	8,566	
Total	<u>10,432</u>	<u>11,234</u>
	=====	=====

\$8,566 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

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

Year ended June 30:	
-----	
2016	(2,412)
2017	(2,412)
2018	(2,412)
2019	(2,412)
2020	278
Thereafter	0

**Actuarial assumptions.** The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses.
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Equity Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	5%	0.00%

**Discount rate.** The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

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

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
The city's proportionate share of the net pension liability	88,759	57,550	31,455

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

Note 11 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Governmental Activities. This adjustment was made to account for the district's net pension liability less it's deferred outflows of resources at December 31, 2014.

CITY OF UNDERWOOD  
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	67,630.00	67,630.00	66,922.89	(707.11)
Licenses, Permits and Fees	4,300.00	4,300.00	3,868.00	(432.00)
Intergovernmental	281,400.00	281,400.00	244,489.89	(36,910.11)
Charges for Services	4,900.00	4,900.00	5,311.95	411.95
Fines and Forfeits	10,000.00	10,000.00	12,779.00	2,779.00
Miscellaneous	11,500.00	11,500.00	11,776.77	276.77
Total Revenues	379,730.00	379,730.00	345,148.50	(34,581.50)
<u>Expenditures:</u>				
Current:				
General Government	126,165.00	126,165.00	91,138.83	35,026.17
Public Safety	74,288.62	74,288.62	73,588.68	699.94
Streets and Public Works	72,850.00	72,850.00	80,094.08	(7,244.08)
Health and Welfare	6,000.00	6,000.00	5,062.27	937.73
Culture and Recreation	16,000.00	16,000.00	11,720.86	4,279.14
Other	21,000.00	21,000.00	20,573.28	426.72
Total Expenditures	316,303.62	316,303.62	282,178.00	34,125.62
Excess (Deficiency) of Revenues Over Expenditures	63,426.38	63,426.38	62,970.50	(455.88)
<u>Other Financing Sources (Uses):</u>				
Transfers In	29,532.00	29,532.00	69,610.05	40,078.05
Transfers Out	(79,532.00)	(79,532.00)	(80,959.88)	(1,427.88)
Total Other Financing Sources (Uses)	(50,000.00)	(50,000.00)	(11,349.83)	38,650.17
Net Change in Fund Balances	13,426.38	13,426.38	51,620.67	38,194.29
Fund Balance - January 1	888,987.85	888,987.85	888,987.85	
Fund Balance - December 31	902,414.23	902,414.23	940,608.52	38,194.29

CITY OF UNDERWOOD  
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	56,700.00	56,700.00	63,686.08	6,986.08
Licenses, Permits and Fees	4,500.00	4,500.00	3,896.00	(604.00)
Intergovernmental	263,000.00	263,000.00	278,664.81	15,664.81
Charges for Services	4,500.00	4,500.00	5,108.47	608.47
Fines and Forfeits	10,000.00	10,000.00	10,444.00	444.00
Miscellaneous	13,000.00	13,000.00	16,798.05	3,798.05
Total Revenues	351,700.00	351,700.00	378,597.41	26,897.41
<u>Expenditures:</u>				
Current:				
General Government	99,205.00	99,205.00	101,525.71	(2,320.71)
Public Safety	64,746.00	64,746.00	64,045.80	700.20
Streets and Public Works	50,850.00	50,850.00	64,629.14	(13,779.14)
Health and Welfare	1,500.00	1,500.00	5,570.83	(4,070.83)
Culture and Recreation	16,000.00	16,000.00	15,329.72	670.28
Other	18,000.00	18,000.00	21,842.31	(3,842.31)
Total Expenditures	250,301.00	250,301.00	272,943.51	(22,642.51)
Excess (Deficiency) of Revenues Over Expenditures	101,399.00	101,399.00	105,653.90	4,254.90
<u>Other Financing (Uses):</u>				
Transfers Out	(85,000.00)	(85,000.00)	(35,450.00)	49,550.00
Net Change in Fund Balances	16,399.00	16,399.00	70,203.90	53,804.90
Fund Balance - January 1	818,783.95	818,783.95	818,783.95	
Fund Balance - December 31	835,182.95	835,182.95	888,987.85	53,804.90
=====				

CITY OF UNDERWOOD  
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Municipal Highway Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	77,350.00	77,350.00	73,174.61	(4,175.39)
Miscellaneous	1,300.00	1,300.00	504.29	(795.71)
Total Revenues	78,650.00	78,650.00	73,678.90	(4,971.10)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	101,800.00	101,800.00	93,005.18	8,794.82
Excess (Deficiency) of Revenues Over Expenditures	(23,150.00)	(23,150.00)	(19,326.28)	3,823.72
<u>Other Financing Sources:</u>				
Transfers In			20,000.00	20,000.00
Net Change in Fund Balances	(23,150.00)	(23,150.00)	673.72	23,823.72
Fund Balance - January 1	255,313.76	255,313.76	255,313.76	
Fund Balance - December 31	232,163.76	232,163.76	255,987.48	23,823.72
	=====			

CITY OF UNDERWOOD  
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Municipal Highway Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	77,230.00	77,230.00	75,791.26	(1,438.74)
Miscellaneous	2,500.00	2,500.00	3,956.25	1,456.25
Total Revenues	79,730.00	79,730.00	79,747.51	17.51
<u>Expenditures:</u>				
Current:				
Streets and Public Works	78,900.00	78,900.00	109,758.00	(30,858.00)
Net Change in Fund Balances	830.00	830.00	(30,010.49)	(30,840.49)
Fund Balance - January 1	285,324.25	285,324.25	285,324.25	
Fund Balance - December 31	286,154.25	286,154.25	255,313.76	(30,840.49)
	=====	=====	=====	=====

CITY OF UNDERWOOD  
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Sales Tax Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	400,000.00	400,000.00	375,005.40	(24,994.60)
Miscellaneous	500.00	500.00	360.71	(139.29)
<b>Total Revenues</b>	<b>400,500.00</b>	<b>400,500.00</b>	<b>375,366.11</b>	<b>(25,133.89)</b>
<b>Expenditures:</b>				
Current:				
Urban and Economic Development	120,000.00	120,000.00	65,557.00	54,443.00
Culture and Recreation	100,000.00	100,000.00	104,769.40	(4,769.40)
Other			430.00	(430.00)
<b>Total Expenditures</b>	<b>220,000.00</b>	<b>220,000.00</b>	<b>170,756.40</b>	<b>49,243.60</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>180,500.00</b>	<b>180,500.00</b>	<b>204,609.71</b>	<b>24,109.71</b>
<b>Other Financing (Uses):</b>				
Transfers Out	(100,000.00)	(100,000.00)	(315,697.28)	(215,697.28)
<b>Net Change in Fund Balances</b>	<b>80,500.00</b>	<b>80,500.00</b>	<b>(111,087.57)</b>	<b>(191,587.57)</b>
<b>Fund Balance - January 1</b>	<b>415,172.76</b>	<b>415,172.76</b>	<b>415,172.76</b>	
<b>Fund Balance - December 31</b>	<b>495,672.76</b>	<b>495,672.76</b>	<b>304,085.19</b>	<b>(191,587.57)</b>



CITY OF UNDERWOOD  
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Sales Tax Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	240,000.00	240,000.00	307,248.47	67,248.47
Miscellaneous	1,000.00	1,000.00	472.30	(527.70)
Total Revenues	241,000.00	241,000.00	307,720.77	66,720.77
<u>Expenditures:</u>				
Current:				
Streets and Public Works			4,417.51	(4,417.51)
Urban and Economic Development	120,000.00	120,000.00	81,400.00	38,600.00
Culture and Recreation	80,000.00	80,000.00	119,316.16	(39,316.16)
Total Expenditures	200,000.00	200,000.00	205,133.67	(5,133.67)
Net Change in Fund Balances	41,000.00	41,000.00	102,587.10	61,587.10
Fund Balance - January 1	312,585.66	312,585.66	312,585.66	
Fund Balance - December 31	353,585.66	353,585.66	415,172.76	61,587.10

CITY OF UNDERWOOD  
Underwood, North Dakota

Notes to the Budgetary Comparison Schedules  
December 31, 2015 and 2014

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, special revenue and debt service 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 budgets during the years ended December 31, 2015 and 2014.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
General Fund		22,642.51
<u>Special Revenue Funds</u>		
Municipal Highway		30,858.00
Sales Tax		5,133.67
Social Security	731.63	5,914.62
Pension	134.76	1,474.04
Advertising		360.00
Cemetery	1,198.57	
Library		4,569.39
Recreation		6,647.85
<u>Debt Service Fund</u>		
* 2014 Refunding Bonds	93,115.00	

\* A budget was not prepared for this fund.

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Schedule of Employer's Share of Net Pension Liability  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*

	2015 -----
City's proportion of the net pension liability	0.009067%
City's proportionate share of the net pension liability	57,550
City's covered-employee payroll	76,377
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.7%

Schedule of Employer Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*

	2015 -----
Statutorily required contribution	5,060
Contributions in relation to the statutorily required contribution	(5,060)
Contribution deficiency (excess)	0
City's covered-employee payroll	76,377
Contributions as a percentage of covered-employee payroll	6.63%

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

CITY OF UNDERWOOD  
Underwood, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
<b>Major Governmental Funds</b>						
<u>General Fund</u>						
General	356,113.89	254,824.56	69,610.05	26,959.88	258,536.54	395,052.08
Coal Severance	532,873.96	90,323.94		54,000.00	23,641.46	545,556.44
Total General Fund	888,987.85	345,148.50	69,610.05	80,959.88	282,178.00	940,608.52
Municipal Highway	255,313.76	73,678.90	20,000.00		93,005.18	255,987.48
Sales Tax	415,172.76	375,366.11		315,697.28	170,756.40	304,085.19
Surge Fund		349,549.36				349,549.36
Flood Water Drainage		3,467,252.53			3,396,939.01	70,313.52
Total Major Governmental Funds	1,559,474.37	4,610,995.40	89,610.05	396,657.16	3,942,878.59	1,920,544.07
<u>Non-Major Governmental Funds</u>						
Social Security	15,394.04	8,966.56		12,628.97	11,731.63	
Pension	2,778.09	6,591.30		2,534.63	6,834.76	
Advertising	8,783.10	54.04		7,767.14	1,070.00	
Cemetery	17,660.65	531.45	5,000.00		3,278.87	19,913.23
Library	12,041.90	12,451.94			12,629.50	11,864.34
Recreation	(1,858.29)	4,316.95	6,000.00		4,906.25	3,552.41
Public Health	21,689.94	29.04				21,718.98
Public Buildings	23,998.98	6,904.66	26,959.88		3,468.37	54,395.15
Emergency	15,459.00	29.85				15,488.85
Curb, Gutter and Sidewalk Reserve	992.42	0.86		993.28		
Insurance Reserve	16,217.56	7,748.86		18,153.71	5,812.71	
#11-2002 Special Assessments	26,896.42	63.46		26,959.88		
#12-2006 Special Assessments	601.10	21,917.43		22,518.53		
Westridge Estates	5.22	30,889.06		30,894.28		
Swimming Pool	11,306.92	25,524.66			24,584.75	12,246.83
2014 Refunding Bonds	(1,950.51)		101,412.81		93,115.00	6,347.30
Flood Water Special Assessments		1.63	60,697.28			60,698.91
Total Non-Major Governmental Funds	170,016.54	126,021.75	200,069.97	122,450.42	167,431.84	206,226.00
Total Governmental Funds	1,729,490.91	4,737,017.15	289,680.02	519,107.58	4,110,310.43	2,126,770.07
<u>Major Enterprise Funds</u>						
Water:						
Operating	76,248.85	155,244.59	170,000.00		172,233.34	229,260.10
Water Pipeline	571.64	0.80		572.44		
Water Pipeline Maint. & Repair	15,105.34	1.26				15,106.60
Sewer:						
Operating	66,365.41	47,916.84	60,000.00	3,000.00	68,869.50	102,412.75
Wastewater Replacement	100,828.99	233.62	3,000.00			104,062.61
Total Major Enterprise Funds	259,120.23	203,397.11	233,000.00	3,572.44	241,102.84	450,842.06
<u>Non-Major Enterprise Fund</u>						
Garbage	13,939.70	69,564.00			71,683.49	11,820.21
Total Enterprise Funds	273,059.93	272,961.11	233,000.00	3,572.44	312,786.33	462,662.27

(continued)

CITY OF UNDERWOOD  
Underwood, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2015  
(continued)

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
<u>Agency Fund</u>						
USDA Revolving Loan Fund	51,781.20	22,236.38				74,017.58
Total Primary Government	2,054,332.04	5,032,214.64	522,680.02	522,680.02	4,423,096.76	2,663,449.92
<u>Discretely Presented</u>						
<u>Component Units</u>						
Underwood Housing Authority	30,853.25	41,568.30			35,618.36	36,803.19
Underwood Area Economic Development Corporation	36,192.39	73,465.69			61,026.63	48,631.45
Total Discretely Presented Component Units	67,045.64	115,033.99			96,644.99	85,434.64
Total Reporting Entity	2,121,377.68	5,147,248.63	522,680.02	522,680.02	4,519,741.75	2,748,884.56

CITY OF UNDERWOOD  
Underwood, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2014

	Balance 1-1-14	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-14
<b>Major Governmental Funds</b>						
<u>General Fund</u>						
General	327,486.94	290,235.46			261,608.51	356,113.89
Coal Severance	491,297.01	88,361.95		35,450.00	11,335.00	532,873.96
Total General Fund	818,783.95	378,597.41		35,450.00	272,943.51	888,987.85
Municipal Highway	285,324.25	79,747.51			109,758.00	255,313.76
Sales Tax	312,585.66	307,720.77			205,133.67	415,172.76
2014 Refunding Bonds		508,564.39			510,514.90	(1,950.51)
Total Major Governmental Funds	1,416,693.86	1,274,630.08		35,450.00	1,098,350.08	1,557,523.86
<u>Non-Major Governmental Funds</u>						
Social Security	21,176.87	8,131.79			13,914.62	15,394.04
Pension	4,381.34	4,770.79			6,374.04	2,778.09
Advertising	9,751.31	91.79			1,060.00	8,783.10
Cemetery	17,581.73	768.07			689.15	17,660.65
Library	16,209.55	14,996.74			19,164.39	12,041.90
Recreation	1,062.18	7,672.38			10,592.85	(1,858.29)
Public Health	21,686.30	3.64				21,689.94
Public Buildings	17,327.42	6,671.56				23,998.98
Emergency	15,414.47	44.53				15,459.00
Curb, Gutter and Sidewalk Reserve	991.39	1.03				992.42
Insurance Reserve	13,279.36	7,824.20			4,886.00	16,217.56
#11-2002 Special Assessments	25,033.46	1,862.96				26,896.42
#12-2006 Special Assessments	18.50	24,074.60			23,492.00	601.10
Westridge Estates	14.44	25,310.03	35,450.00		60,769.25	5.22
Swimming Pool	9,649.74	22,013.18			20,356.00	11,306.92
Total Non-Major Governmental Funds	173,578.06	124,237.29	35,450.00		161,298.30	171,967.05
Total Governmental Funds	1,590,271.92	1,398,867.37	35,450.00	35,450.00	1,259,648.38	1,729,490.91
<u>Major Enterprise Funds</u>						
Water:						
Operating	233,033.09	147,790.70			304,574.94	76,248.85
Water Pipeline	1,620.59	1.05			1,050.00	571.64
Water Pipeline Maint. & Repair	15,102.60	2.74				15,105.34
Sewer:						
Operating	108,576.86	47,080.02		3,000.00	86,291.47	66,365.41
Wastewater Replacement	97,632.66	196.33	3,000.00			100,828.99
Total Major Enterprise Funds	455,965.80	195,070.84	3,000.00	3,000.00	391,916.41	259,120.23
<u>Non-Major Enterprise Fund</u>						
Garbage	8,525.28	70,702.81			65,288.39	13,939.70
Total Enterprise Funds	464,491.08	265,773.65	3,000.00	3,000.00	457,204.80	273,059.93

(continued)

CITY OF UNDERWOOD  
Underwood, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2014  
(continued)

	Balance 1-1-14	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-14
<u>Agency Fund</u>						
USDA Revolving Loan Fund	28,192.34	63,588.86			40,000.00	51,781.20
Total Primary Government	2,082,955.34	1,728,229.88	38,450.00	38,450.00	1,756,853.18	2,054,332.04
<u>Discretely Presented</u>						
<u>Component Units</u>						
Underwood Housing Authority	33,572.34	36,383.73			39,102.82	30,853.25
Underwood Area Economic Development Corporation	40,939.69	117,978.48			122,725.78	36,192.39
Total Discretely Presented Component Units	74,512.03	154,362.21			161,828.60	67,045.64
Total Reporting Entity	2,157,467.37	1,882,592.09	38,450.00	38,450.00	1,918,681.78	2,121,377.68

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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 Underwood  
Underwood, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Underwood, Underwood, North Dakota, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated August 19, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audits 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 audits 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 audits, 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 audits are 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*

Rath and Mehrer, P.C.

Bismarck, North Dakota

August 19, 2016

CITY OF UNDERWOOD  
Underwood, North Dakota

Schedule of Findings and Responses  
For the Years Ended December 31, 2015 and 2014

**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
Discretely Presented Component Units	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, 2015 and 2014 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.