

AUDIT REPORT

**CITY OF UNDERWOOD
Underwood, North Dakota**

For the Years Ended December 31, 2017 and 2016

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF UNDERWOOD
Underwood, North Dakota

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CITY OF UNDERWOOD
Underwood, North Dakota

CITY OFFICIALS

Leon Weisenburger	Commission President
Derrick Fischer	Commissioner
Jay Snyder	Commissioner
Patti Werre	Commissioner
Diane Schell	Auditor

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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2017 and 2016, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting 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 June 22, 2018 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 22, 2018

CITY OF UNDERWOOD

Management's Discussion and Analysis

December 31, 2017 and 2016

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, 2017 and 2016. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

FINANCIAL HIGHLIGHTS

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

- * Total net position of the city increased \$383,542 as a result of the current year's operations. Net position of the governmental activities increased \$373,077 and net position of the business-type activities increased \$10,465.
- * Governmental net position totaled \$3,811,109 and business-type net position totaled \$2,054,825.
- * Total revenues from all sources were \$1,373,673 for governmental activities and \$353,992 for business-type activities.
- * Total expenses were \$1,000,596 for governmental activities and \$343,528 for business-type activities.
- * The city's general fund had \$322,716 in total revenues and \$310,553 in total expenditures. There was a total of \$47,000 paid from other financing uses. Overall, the general fund balance decreased by \$34,836 for the year ended December 31, 2017.

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city increased \$1,065,428 as a result of the current year's operations. Net position of the governmental activities increased \$1,094,022 and net position of the business-type activities decreased \$28,594.
- * Governmental net position totaled \$3,438,032 and business-type net position totaled \$2,044,360.
- * Total revenues from all sources were \$1,856,510 for governmental activities and \$322,153 for business-type activities.
- * Total expenses were \$762,489 for governmental activities and \$350,747 for business-type activities.
- * The city's general fund had \$311,023 in total revenues and \$281,196 in total expenditures. There was a total of \$230,000 paid from other financing uses. Overall, the general fund balance decreased by \$200,173 for the year ended December 31, 2016.

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 and enterprise 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, 2017 and 2016?"

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 special assessments fund, 2016 street special assessments fund, flood water drainage fund and the 2016 street construction 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, 2017 and 2016. 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 \$383,542 and \$1,065,428 for the years ended December 31, 2017 and 2016, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2017 the city's net position of \$5,865,934 is segregated into three separate categories. Net investment in capital assets totals \$3,461,146. It should be noted that these assets are not available for future spending. The restricted component of net position is \$1,359,201 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 \$1,045,587 which includes (\$63,912) 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 \$1,109,499 is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,944,483	524,217
Capital Assets (net of accumulated depreciation)	7,320,538	1,530,608
Total Assets	<u>9,265,021</u>	<u>2,054,825</u>
Deferred Outflows of Resources	<u>25,692</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	430,000	
Long-Term Liabilities	4,960,000	
Net Pension Liability	79,011	
Total Liabilities	<u>5,469,011</u>	<u>0</u>
Deferred Inflows of Resources	<u>10,593</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	1,930,538	1,530,608
Restricted	1,188,880	170,320
Unrestricted	691,690	353,897
Total Net Position	<u>3,811,109</u> =====	<u>2,054,825</u> =====

As of December 31, 2016 the city's net position of \$5,482,392 is segregated into three separate categories. Net investment in capital assets totals \$2,995,761. It should be noted that these assets are not available for future spending. The restricted component of net position is \$2,225,476 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 \$261,155 which includes (\$60,806) 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 \$321,961 is available to meet the city's ongoing obligations.

Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	2,073,527	473,910
Capital Assets (net of accumulated depreciation)	7,055,311	1,570,450
Total Assets	<u>9,128,838</u>	<u>2,044,360</u>
Deferred Outflows of Resources	<u>14,602</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	240,000	
Long-Term Liabilities	5,390,000	
Net Pension Liability	60,172	
Total Liabilities	<u>5,690,172</u>	<u>0</u>
Deferred Inflows of Resources	<u>15,236</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	1,425,311	1,570,450
Restricted	2,083,086	142,390
Unrestricted	(70,365)	331,520
Total Net Position	<u>3,438,032</u> =====	<u>2,044,360</u> =====

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> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2017 and 2016. 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, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	18,170	353,015
Operating Grants and Contributions	717,082	
<u>General Revenues:</u>		
Property Taxes	110,495	
Other Taxes	413,793	
Intergovernmental - Unrestricted	52,479	
Interest Earnings and Other Revenue	61,653	977
Total Revenues	<u>1,373,673</u>	<u>353,992</u>
<u>Expenses</u>		
General Government	142,210	
Public Safety	82,918	
Streets and Public Works	418,874	
Urban and Economic Development	55,000	
Health and Welfare	5,319	
Culture and Recreation	119,751	
Other	31,685	
Interest on Long-Term Debt	144,838	
Water		225,964
Sewer		60,480
Garbage		57,083
Total Expenses	<u>1,000,596</u>	<u>343,528</u>
Net Change in Position	<u>373,077</u> =====	<u>10,465</u> =====

Property taxes constituted 6%, other taxes 24%, unrestricted intergovernmental 3%, operating grants and contributions 42%, and charges for services made up 21% of the total revenues of all activities of the city for the fiscal year ended December 31, 2017.

General government constituted 11%, public safety 6%, streets and public works 31%, and enterprise 26% of total expenses for all activities during the fiscal year ended December 31, 2017.

Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	40,707	317,986
Operating Grants and Contributions	1,122,490	
<u>General Revenues:</u>		
Property Taxes	106,148	
Other Taxes	450,814	
Intergovernmental - Unrestricted	58,908	
Interest Earnings and Other Revenue	77,444	4,167
Total Revenues	<u>1,856,511</u>	<u>322,153</u>
Expenses		
General Government	115,778	
Public Safety	82,918	
Streets and Public Works	225,856	
Urban and Economic Development	45,635	
Health and Welfare	5,215	
Culture and Recreation	124,910	
Other	90,073	
Interest on Long-Term Debt	72,102	
Water		242,202
Sewer		45,011
Garbage		63,534
Total Expenses	<u>762,489</u>	<u>350,747</u>
Net Change in Position	<u>1,094,022</u> =====	<u>(28,594)</u> =====

Property taxes constituted 5%, other taxes 21%, unrestricted intergovernmental 3%, operating grants and contributions 52% and charges for services made up 16% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 10%, public safety 7%, streets and public works 20%, and enterprise 32% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<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>
Expenses		
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> =====

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

Table III

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

	Total Cost Year Ended <u>Dec. 31, 2017</u>	Net Cost Year Ended <u>Dec. 31, 2017</u>
General Government	142,210	133,136
Public Safety	82,918	74,075
Streets and Public Works	418,874	(126,987)
Urban and Economic Development	55,000	55,000
Health and Welfare	5,319	5,319
Culture and Recreation	119,751	114,398
Other	31,685	31,685
Interest on Long-Term Debt	144,838	(21,284)
Total Expenses	<u>1,000,596</u> =====	<u>265,343</u> =====

Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended <u>Dec. 31, 2016</u>	Net Cost Year Ended <u>Dec. 31, 2016</u>
General Government	115,778	105,970
Public Safety	82,918	69,371
Streets and Public Works	225,856	(859,865)
Urban and Economic Development	45,635	45,635
Health and Welfare	5,215	5,215
Culture and Recreation	124,910	118,259
Other	90,073	89,848
Interest on Long-Term Debt	72,102	24,857
Total Expenses	<u>762,489</u> =====	<u>(400,709)</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 \$1,373,673 and expenditures of \$1,502,717 for the year ended December 31, 2017. For the year ended December 31, 2016, the city's governmental funds had total revenue of \$1,853,345 and expenditures of \$9,557,077. As of December 31, 2017, the unassigned fund balance of the city's general fund was \$705,600. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$740,436 and total unassigned fund balances for all the city's governmental funds was (\$59,559).

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2017 and 2016, the city amended the general fund budgets. The gross effect of these amendments was to increase transfers out by \$32,000 and \$30,000 for the years ended December 31, 2017 and 2016, respectively.

Actual revenue for the year ended December 31, 2017 was \$9,861 more than budgeted. Actual expenditures for the year ended December 31, 2017 were under budget by \$7,331.

Actual revenue for the year ended December 31, 2016 was \$69,827 less than budgeted. This budget variance was due to the city overestimating collections for state aid, included in intergovernmental revenues. Actual expenditures for the year ended December 31, 2016 were under budget by \$74,978. This variance was the result of the city overestimating appropriations for social security and pension costs and expenditures related to building maintenance and repairs.

CAPITAL ASSETS

As of December 31, 2017 and 2016, the city had \$8,851,146 and \$8,625,761, respectively, invested in capital assets. The following tables show the balances, for governmental activities, as of December 31, 2017, 2016 and 2015.

Table IV

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

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	7,280,751	1,530,608
Machinery and Vehicles	39,787	
Total (net of depreciation)	<u>7,320,538</u> =====	<u>1,530,608</u> =====

This total represents an increase of \$225,385 in capital assets from January 1, 2017. The increase in capital assets was due to the completion of the storm sewer and 2016 street construction projects.

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

	<u>Governmental</u>	<u>Business- Type</u>
Construction in Progress	6,145,001	
Buildings and Infrastructure	861,372	1,570,450
Machinery and Vehicles	48,938	
Total (net of depreciation)	<u>7,055,311</u> =====	<u>1,570,450</u> =====

This total represents an increase of \$2,619,877 in capital assets from January 1, 2016. The increase in construction in progress was due to the ongoing storm sewer and 2016 street construction projects.

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> =====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2017, the city had \$5,390,000 in outstanding debt of which \$430,000 was due within one year. As of December 31, 2016, the city had \$5,630,000 in outstanding debt of which \$240,000 was due within one year. During fiscal years 2017 and 2016, the city issued two new long-term debt obligations.

Special Assessment Bonds Payable in the amount of \$5,100,000. The city issued the Refunding Improvement Bonds of 2016 to repay the temporary bank loan and to provide additional funding for the storm sewer and street improvement projects. These bonds will have a final payment on May 1, 2032.

Temporary Bank Loan in the amount of \$2,547,323. The city obtained short-term financing to repay the Loan Anticipation Temporary Bonds of 2015. The city repaid these bonds during 2016 after receiving the proceeds of the Refunding Improvement Bonds of 2016.

For a detailed breakdown of the long-term debt, readers are referred to Note 6 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, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
ASSETS:					
Cash, Cash Equivalents and Investments	1,944,482.84	524,216.98	2,468,699.82	37,072.18	19,109.49
Capital Assets (net of accumulated depreciation):					
Buildings and Infrastructure	7,280,751.00	1,530,608.00	8,811,359.00	416,670.00	
Machinery and Vehicles	39,787.00		39,787.00		
Total Capital Assets	7,320,538.00	1,530,608.00	8,851,146.00	416,670.00	
Total Assets	9,265,020.84	2,054,824.98	11,319,845.82	453,742.18	19,109.49
DEFERRED OUTFLOWS OF RESOURCES					
Changes in Resources Related to Pensions	25,692.00		25,692.00		
LIABILITIES:					
Long-Term Liabilities:					
Due Within One Year:					
General Obligation Bonds Payable	15,000.00		15,000.00		
Special Assessment Bonds Payable	415,000.00		415,000.00		
Revenue Bonds Payable				9,049.72	
Due After One Year:					
General Obligation Bonds Payable	145,000.00		145,000.00		
Special Assessment Bonds Payable	4,815,000.00		4,815,000.00		
Revenue Bonds Payable				419,691.99	
Net Pension Liability	79,011.00		79,011.00		
Total Liabilities	5,469,011.00		5,469,011.00	428,741.71	
DEFERRED INFLOWS OF RESOURCES					
Changes in Resources Related to Pensions	10,593.00		10,593.00		
NET POSITION:					
Net Investment in Capital Assets	1,930,538.00	1,530,608.00	3,461,146.00	(12,071.71)	
Restricted for:					
Debt Service	481,302.23		481,302.23		
Water Pipeline Maint. & Repair		15,109.00	15,109.00		
Water Main Replacement		17,641.66	17,641.66		
Water Meter Replacement		27,091.63	27,091.63		
Wastewater Replacement		110,477.74	110,477.74		
Special Purposes	707,578.24		707,578.24		
Unrestricted	691,690.37	353,896.95	1,045,587.32	37,072.18	19,109.49
Total Net Position	3,811,108.84	2,054,824.98	5,865,933.82	25,000.47	19,109.49

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, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Economic Development
ASSETS:					
Cash, Cash Equivalents and Investments	2,073,526.89	473,910.43	2,547,437.32	38,945.35	20,183.85
Capital Assets (net of accumulated depreciation):					
Construction in Progress	6,145,001.00		6,145,001.00		
Buildings and Infrastructure	861,372.00	1,570,450.00	2,431,822.00	425,003.00	
Machinery and Vehicles	48,938.00		48,938.00		
Total Capital Assets	7,055,311.00	1,570,450.00	8,625,761.00	425,003.00	
Total Assets	9,128,837.89	2,044,360.43	11,173,198.32	463,948.35	20,183.85
DEFERRED OUTFLOWS OF RESOURCES					
Changes in Resources Related to Pensions	14,602.00		14,602.00		
LIABILITIES:					
Long-Term Liabilities:					
Due Within One Year:					
General Obligation Bonds Payable	15,000.00		15,000.00		
Special Assessment Bonds Payable	225,000.00		225,000.00		
Revenue Bonds Payable				8,609.25	
Due After One Year:					
General Obligation Bonds Payable	160,000.00		160,000.00		
Special Assessment Bonds Payable	5,230,000.00		5,230,000.00		
Revenue Bonds Payable				428,741.71	
Net Pension Liability	60,172.00		60,172.00		
Total Liabilities	5,690,172.00		5,690,172.00	437,350.96	
DEFERRED INFLOWS OF RESOURCES					
Changes in Resources Related to Pensions	15,236.00		15,236.00		
NET POSITION:					
Net Investment in Capital Assets	1,425,311.00	1,570,450.00	2,995,761.00	(12,347.96)	
Restricted for:					
Debt Service	13,359.55		13,359.55		
Water Pipeline Maint. & Repair		15,107.87	15,107.87		
Water Main Replacement		8,338.52	8,338.52		
Water Meter Replacement		11,674.62	11,674.62		
Wastewater Replacement		107,269.16	107,269.16		
Special Purposes	2,069,726.57		2,069,726.57		
Unrestricted	(70,365.23)	331,520.26	261,155.03	38,945.35	20,183.85
Total Net Position	3,438,031.89	2,044,360.43	5,482,392.32	26,597.39	20,183.85

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, 2017

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	Housing Authority	Economic Development
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	142,209.74	9,073.44		(133,136.30)		(133,136.30)		
Public Safety	82,918.08	8,843.00		(74,075.08)		(74,075.08)		
Streets and Public Works	418,873.87		545,861.13	126,987.26		126,987.26		
Urban and Economic Development	55,000.00			(55,000.00)		(55,000.00)		
Health and Welfare	5,319.35			(5,319.35)		(5,319.35)		
Culture and Recreation	119,751.11	253.89	5,098.99	(114,398.23)		(114,398.23)		
Other	31,685.38			(31,685.38)		(31,685.38)		
Interest on Long-Term Debt	144,838.11		166,122.13	21,284.02		21,284.02		
Total Governmental Activities	1,000,595.64	18,170.33	717,082.25	(265,343.06)		(265,343.06)		
<u>Business-Type Activities:</u>								
Water	225,964.28	229,241.02			3,276.74	3,276.74		
Sewer	60,480.29	65,080.04			4,599.75	4,599.75		
Garbage	57,083.36	58,694.40			1,611.04	1,611.04		
Total Business-Type Activities	343,527.93	353,015.46			9,487.53	9,487.53		
Total Primary Government	1,344,123.57	371,185.79	717,082.25	(265,343.06)	9,487.53	(255,855.53)		
<u>Component Units:</u>								
Housing Authority	34,885.65	33,285.00					(1,600.65)	(4,593.35)
Economic Development	59,593.35		55,000.00					
Total Component Units	94,479.00	33,285.00	55,000.00				(1,600.65)	(4,593.35)

General Revenues and Transfers:

Taxes:

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

98,350.65
 12,144.63
 275,892.42
 77,998.74
 24,149.55
 2,238.29
 30,807.75
 2,705.96

 52,479.42
 61,652.60

98,350.65
 12,144.63
 275,892.42
 77,998.74
 24,149.55
 2,238.29
 30,807.75
 2,705.96

 52,479.42
 62,629.62

3.73 3,518.99

Total General Revenues

638,420.01

3.73 3,518.99

Change in Net Position

373,076.95

(1,596.92) (1,074.36)

Net Position - January 1

3,438,031.89

26,597.39 20,183.85

Net Position - December 31

3,811,108.84

25,000.47 19,109.49

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, 2016

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	Housing Authority	Economic Development
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	115,778.33	9,807.88		(105,970.45)		(105,970.45)		
Public Safety	82,918.08	13,547.00		(69,371.08)		(69,371.08)		
Streets and Public Works	225,856.04	16,805.61	1,068,915.00	859,864.57		859,864.57		
Urban and Economic Development	45,635.00			(45,635.00)		(45,635.00)		
Health and Welfare	5,215.40			(5,215.40)		(5,215.40)		
Culture and Recreation	124,910.43	321.88	6,329.59	(118,258.96)		(118,258.96)		
Other	90,072.84	225.00		(89,847.84)		(89,847.84)		
Interest on Long-Term Debt	72,102.47		47,245.15	(24,857.32)		(24,857.32)		
Total Governmental Activities	762,488.59	40,707.37	1,122,489.74	400,708.52		400,708.52		
<u>Business-Type Activities:</u>								
Water	242,202.11	196,302.82			(45,899.29)	(45,899.29)		
Sewer	45,011.11	62,210.88			17,199.77	17,199.77		
Garbage	63,533.56	59,472.28			(4,061.28)	(4,061.28)		
Total Business-Type Activities	350,746.78	317,985.98			(32,760.80)	(32,760.80)		
Total Primary Government	1,113,235.37	358,693.35	1,122,489.74	400,708.52	(32,760.80)	367,947.72		
<u>Component Units:</u>								
Housing Authority	38,887.25	39,949.00					1,061.75	(34,272.77)
Economic Development	71,907.77		37,635.00					
Total Component Units	110,795.02	39,949.00	37,635.00				1,061.75	(34,272.77)

General Revenues:

Taxes:

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

94,487.21
11,660.55
328,109.68
78,259.32
24,745.69
2,354.72
14,717.36
2,627.16
58,907.93
77,443.68

94,487.21
11,660.55
328,109.68
78,259.32
24,745.69
2,354.72
14,717.36
2,627.16
58,907.93
81,610.64
937.64
5,825.17

Total General Revenues

693,313.30

937.64
5,825.17

Change in Net Position

1,094,021.82

1,999.39
(28,447.60)

Net Position - January 1

2,344,010.07

24,598.00

Net Position - December 31

3,438,031.89

26,597.39
20,183.85

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, 2017

Major Funds

	General	Municipal Highway	Sales Tax	Flood Water Special Assessments	2016 Street Special Assessments	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash, Cash Equivalents and Investments	705,599.59	281,514.86	297,569.69	235,683.73	232,539.06	191,575.91	1,944,482.84
FUND BALANCES:							
Restricted for:							
Streets and Public Works		281,514.86					281,514.86
Community and Economic Development			297,569.69				297,569.69
Culture and Recreation						23,229.11	23,229.11
Health and Welfare						21,801.18	21,801.18
Emergency Purposes						15,545.95	15,545.95
Public Buildings						43,730.32	43,730.32
Debt Service				235,683.73	232,539.06	13,079.44	481,302.23
Other Purposes						24,187.13	24,187.13
Assigned to:							
Equipment Replacement						50,002.78	50,002.78
Unassigned	705,599.59						705,599.59
Total Fund Balances	705,599.59	281,514.86	297,569.69	235,683.73	232,539.06	191,575.91	1,944,482.84

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, 2016

Major Funds

	General	Municipal Highway	Sales Tax	Surge Fund	Flood Water Special Assessments	Flood Water Drainage	2016 Street Construction	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Cash, Cash Equivalents and Investments	435.71	219,736.90	245,543.43	349,576.89		684,099.63	379,020.77	195,113.56	2,073,526.89
Interfund Receivables	740,000.00	59,994.94							799,994.94
Total Assets	740,435.71	279,731.84	245,543.43	349,576.89	-0-	684,099.63	379,020.77	195,113.56	2,873,521.83
LIABILITIES AND FUND BALANCES:									
Liabilities									
Interfund Payables					799,994.94				799,994.94
Fund Balances									
Restricted for:									
Streets and Public Works		279,731.84		349,576.89		684,099.63	379,020.77		1,692,429.13
Community and Economic Development			245,543.43						245,543.43
Culture and Recreation								18,106.22	18,106.22
Health and Welfare								21,758.46	21,758.46
Emergency Purposes								15,516.32	15,516.32
Public Buildings								54,474.31	54,474.31
Debt Service								13,359.55	13,359.55
Other Purposes								21,898.70	21,898.70
Assigned to:									
Equipment Replacement					(799,994.94)			50,000.00	50,000.00
Unassigned	740,435.71								(59,559.23)
Total Fund Balances	740,435.71	279,731.84	245,543.43	349,576.89	(799,994.94)	684,099.63	379,020.77	195,113.56	2,073,526.89
Total Liabilities and Fund Balances	740,435.71	279,731.84	245,543.43	349,576.89	-0-	684,099.63	379,020.77	195,113.56	2,873,521.83

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, 2017

Total Fund Balances for Governmental Funds	1,944,482.84
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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	8,958,425.00	
Less Accumulated Depreciation	(1,637,887.00)	
Net Capital Assets		7,320,538.00

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	25,692.00	
Total Deferred Inflows of Resources	(10,593.00)	
Net Deferred Outflows/Inflows of Resources		15,099.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2017 are:

General Obligation Bonds Payable	(160,000.00)	
Special Assessments Bonds Payable	(5,230,000.00)	
Net Pension Liability	(79,011.00)	
Total Long-Term Liabilities		(5,469,011.00)

Total Net Position of Governmental Activities	3,811,108.84
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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, 2016

Total Fund Balances for Governmental Funds		2,073,526.89
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	8,391,566.00	
Less Accumulated Depreciation	(1,336,255.00)	
Net Capital Assets		7,055,311.00
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	14,602.00	
Total Deferred Inflows of Resources	(15,236.00)	
Net Deferred Outflows/Inflows of Resources		(634.00)
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, 2016 are:		
General Obligation Bonds Payable	(175,000.00)	
Special Assessments Bonds Payable	(5,455,000.00)	
Net Pension Liability	(60,172.00)	
Total Long-Term Liabilities		(5,690,172.00)
Total Net Position of Governmental Activities		3,438,031.89
		=====

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, 2017

Major Funds

	General	Municipal Highway	Sales Tax	Surge Fund	Flood Water Spec. Assmt.	2016 Street Spec. Assmt.	Flood Water Drainage	2016 Street Construction	Other Governmental Funds	Total Governmental Funds
Revenues:										
Taxes	98,350.65		275,892.42		116,751.01				12,144.63	386,387.70
Special Assessments	9,073.44								49,371.12	166,122.13
Licenses, Permits and Fees	190,074.03	66,969.13					478,892.00		5,404.67	9,073.44
Intergovernmental	8,843.00								253.89	741,339.83
Fines and Forfeits	16,375.30	1,083.26	306.95	13.93	1.94	1.94	986.95	14,636.58	28,245.75	9,096.89
Miscellaneous										61,652.60
Total Revenues	322,716.42	68,052.39	276,199.37	13.93	116,752.95	1.94	479,878.95	14,636.58	95,420.06	1,373,672.59
Expenditures:										
Current:										
General Government	122,617.74								10,819.00	133,436.74
Public Safety	82,618.08									82,618.08
Streets and Public Works	65,399.50	66,269.37					4,280.00			135,948.87
Urban and Economic Development	5,319.35		55,000.00							55,000.00
Health and Welfare	9,304.60		68,973.11				891.00	3,852.05	28,733.40	107,011.11
Culture and Recreation	25,293.27		200.00				60,000.00	506,859.00	1,449.06	31,685.38
Other										566,859.00
Capital Outlay										
Debt Service:										
Principal									90,000.00	240,000.00
Interest									14,956.25	144,838.11
Total Expenditures	310,552.54	66,269.37	124,173.11		279,881.86		65,171.00	510,711.05	145,957.71	1,502,716.64
Excess (Deficiency) of Revenues Over Expenditures	12,163.88	1,783.02	152,026.26	13.93	(163,128.91)	1.94	414,707.95	(496,074.47)	(50,537.65)	(129,044.05)

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, 2016

	Major Funds								
	General	Municipal Highway	Sales Tax	Surge Fund	Flood Water Spec. Assmt.	Flood Water Drainage	2016 Street Construction	Other Governmental Funds	Total Governmental Funds
Revenues:									
Taxes	94,487.21		328,109.68					11,660.55	434,257.44
Special Assessments	9,807.88							47,245.15	47,245.15
Licenses, Permits and Fees	181,315.18	64,539.00				1,004,376.00		6,626.59	1,256,856.77
Intergovernmental						14,541.31	2,264.30	225.00	17,030.61
Charges for Services	13,547.00							321.88	13,868.88
Fines and Forfeits	11,866.08	836.38	30,313.70	27.53	4.10	67.00	16.19	31,147.55	74,278.53
Miscellaneous									
Total Revenues	311,023.35	65,375.38	358,423.38	27.53	4.10	1,018,984.31	2,280.49	97,226.72	1,853,345.26
Expenditures:									
Current:									
General Government	107,657.33								107,657.33
Public Safety	82,618.08								82,618.08
Streets and Public Works	53,317.69	41,631.02					60,332.33		155,281.04
Urban and Economic Development			45,635.00						45,635.00
Health and Welfare	5,215.40							19,011.82	5,215.40
Culture and Recreation	11,131.19		82,027.42			9,343.20	57,271.49	2,201.68	112,170.43
Other	21,256.47					285,667.00	2,463,334.00		90,072.84
Capital Outlay									2,749,001.00
Debt Service:					3,500,000.00	2,547,323.00		90,000.00	6,137,323.00
Principal					47,323.67	8,352.05		16,426.75	72,102.47
Interest									
Total Expenditures	281,196.16	41,631.02	127,662.42		3,547,323.67	2,850,685.25	2,580,937.82	127,640.25	9,557,076.59
Excess (Deficiency) of Revenues Over Expenditures	29,827.19	23,744.36	230,760.96	27.53	(3,547,319.57)	(1,831,700.94)	(2,578,657.33)	(30,413.53)	(7,703,731.33)

<u>Other Financing Sources (Uses):</u>									
Transfers In									
Transfers Out									
Proceeds from Temporary Bank Loan	(230,000.00)	(289,302.72)	139,302.72	300,000.00	127,247.91	566,550.63			
Special Assessment Bonds Issued			2,547,323.00		(47,247.91)	(566,550.63)			
Premium on Bonds Issued							2,547,323.00		
				2,445,000.00	2,655,000.00	5,100,000.00			
				487.05	2,678.10	3,165.15			
<hr/>									
Total Other Financing Sources (Uses)	(230,000.00)	(289,302.72)	2,686,625.72	2,445,487.05	2,957,678.10	80,000.00	7,650,488.15		
<hr/>									
Net Change in Fund Balances	(200,172.81)	23,744.36	(58,541.76)	27.53	(860,693.85)	613,786.11	379,020.77	49,586.47	(53,243.18)
<hr/>									
Fund Balance - January 1	940,608.52	255,987.48	304,085.19	349,549.36	60,698.91	70,313.52	-0-	145,527.09	2,126,770.07
<hr/>									
Fund Balance - December 31	740,435.71	279,731.84	245,543.43	349,576.89	(799,994.94)	684,099.63	379,020.77	195,113.56	2,073,526.89
<hr/>									

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, 2017

Net Change in Fund Balances - Total Governmental Funds	(129,044.05)
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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	566,859.00	
Current Year Depreciation Expense	(301,632.00)	265,227.00

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

Debt Proceeds	0.00	
Repayment of Debt	240,000.00	240,000.00

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 Increase to Pension Expense	(3,106.00)

Change in Net Position of Governmental Activities	373,076.95

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, 2016

Net Change in Fund Balances - Total Governmental Funds (53,243.18)

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	2,749,001.00	
Current Year Depreciation Expense	(89,282.00)	2,659,719.00

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	(7,647,323.00)	
Repayment of Debt	6,137,323.00	(1,510,000.00)

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 Increase to Pension Expense		(2,454.00)
---------------------------------	--	------------

Change in Net Position of Governmental Activities	1,094,021.82
	=====

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, 2017

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	280,529.79	232,355.31	11,331.88	524,216.98
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,498,603.00	32,005.00		1,530,608.00
Total Assets	1,779,132.79	264,360.31	11,331.88	2,054,824.98
=====				
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,498,603.00	32,005.00		1,530,608.00
Restricted for:				
Water Pipeline Maint. & Repair	15,109.00			15,109.00
Water Main Replacement	17,641.66			17,641.66
Water Meter Replacement	27,091.63			27,091.63
Wastewater Replacement		110,477.74		110,477.74
Unrestricted	220,687.50	121,877.57	11,331.88	353,896.95
Total Net Position	1,779,132.79	264,360.31	11,331.88	2,054,824.98
=====				

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, 2016

	Major Enterprise Funds		Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer		
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	237,873.30	226,457.16	9,579.97	473,910.43
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,537,580.00	32,870.00		1,570,450.00
Total Assets	1,775,453.30	259,327.16	9,579.97	2,044,360.43
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,537,580.00	32,870.00		1,570,450.00
Restricted for:				
Water Pipeline Maint. & Repair	15,107.87			15,107.87
Water Main Replacement	8,338.52			8,338.52
Water Meter Replacement	11,674.62			11,674.62
Wastewater Replacement		107,269.16		107,269.16
Unrestricted	202,752.29	119,188.00	9,579.97	331,520.26
Total Net Position	1,775,453.30	259,327.16	9,579.97	2,044,360.43

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, 2017

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>Operating Revenues:</u>				
Charges for Services:				
Water Charges	204,517.43			204,517.43
Surcharges	24,723.59			24,723.59
Sewer Charges		65,080.04		65,080.04
Garbage Charges			58,694.40	58,694.40
Total Operating Revenues	229,241.02	65,080.04	58,694.40	353,015.46
<u>Operating Expenses:</u>				
Salaries	36,565.85	24,044.10		60,609.95
Health Insurance	8,837.86	4,418.86		13,256.72
FICA	3,279.31	2,096.86		5,376.17
Electricity	4,790.96	2,014.31		6,805.27
Natural Gas	544.29			544.29
Garbage			55,456.45	55,456.45
Computer Billing	1,600.87	1,600.90	1,611.46	4,813.23
Telephone	708.69	239.50		948.19
Gas and Oil	857.57	950.31		1,807.88
Water Purchase	112,514.53			112,514.53
Publishing and Printing	280.00			280.00
Chemical Supplies		6,537.88		6,537.88
Operation, Repairs and Maintenance	13,540.35	16,363.49		29,903.84
Miscellaneous	3,467.00	1,349.08	15.45	4,831.53
Depreciation	38,977.00	865.00		39,842.00
Total Operating Expenses	225,964.28	60,480.29	57,083.36	343,527.93
Operating Income	3,276.74	4,599.75	1,611.04	9,487.53
<u>Non-Operating Revenues:</u>				
Interest Income	402.75	399.70	0.87	803.32
Miscellaneous Revenue		33.70	140.00	173.70
Total Non-Operating Revenues	402.75	433.40	140.87	977.02
Income (Loss) Before Transfers	3,679.49	5,033.15	1,751.91	10,464.55
Transfers In		3,000.00		3,000.00
Transfers Out		(3,000.00)		(3,000.00)
Change in Net Position	3,679.49	5,033.15	1,751.91	10,464.55
Net Position - January 1	1,775,453.30	259,327.16	9,579.97	2,044,360.43
Net Position - December 31	1,779,132.79	264,360.31	11,331.88	2,054,824.98

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, 2016

	Major Enterprise Funds		Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer		
<u>Operating Revenues:</u>				
Charges for Services:				
Water Charges	174,206.85			174,206.85
Surcharges	22,095.97			22,095.97
Sewer Charges		62,210.88		62,210.88
Garbage Charges			59,472.28	59,472.28
Total Operating Revenues	196,302.82	62,210.88	59,472.28	317,985.98
<u>Operating Expenses:</u>				
Salaries	35,458.59	23,781.58		59,240.17
Health Insurance	8,944.14	4,823.88		13,768.02
FICA	2,488.18	1,626.49		4,114.67
Electricity	4,967.36	2,004.37		6,971.73
Natural Gas	400.13			400.13
Garbage			61,818.21	61,818.21
Computer Billing	1,679.83	1,679.84	1,715.35	5,075.02
Telephone	685.08	253.63		938.71
Gas and Oil	765.76	887.05		1,652.81
Water Purchases	114,296.46			114,296.46
Printing and Publishing	256.51			256.51
Chemical Supplies		6,200.24		6,200.24
Operation, Repairs and Maintenance	32,171.83	1,783.47		33,955.30
Miscellaneous	1,111.24	1,105.56		2,216.80
Depreciation	38,977.00	865.00		39,842.00
Total Operating Expenses	242,202.11	45,011.11	63,533.56	350,746.78
Operating Income (Loss)	(45,899.29)	17,199.77	(4,061.28)	(32,760.80)
<u>Non-Operating Revenues:</u>				
Interest Income	428.89	378.03	1.04	807.96
Miscellaneous Revenue		1,539.00	1,820.00	3,359.00
Total Non-Operating Revenues	428.89	1,917.03	1,821.04	4,166.96
Income (Loss) Before Transfers	(45,470.40)	19,116.80	(2,240.24)	(28,593.84)
Transfers In		3,000.00		3,000.00
Transfers Out		(3,000.00)		(3,000.00)
Change in Net Position	(45,470.40)	19,116.80	(2,240.24)	(28,593.84)
Net Position - January 1	1,820,923.70	240,210.36	11,820.21	2,072,954.27
Net Position - December 31	1,775,453.30	259,327.16	9,579.97	2,044,360.43

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, 2017

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>Cash flows from operating activities:</u>				
Receipts from customers	229,241.02	65,080.04	58,694.40	353,015.46
Payments to suppliers	(138,304.26)	(29,055.47)	(57,083.36)	(224,443.09)
Payments to employees	(48,683.02)	(30,559.82)		(79,242.84)
Net cash provided (used) by operating activities	42,253.74	5,464.75	1,611.04	49,329.53
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts		33.70	140.00	173.70
Transfers in		3,000.00		3,000.00
Transfers out		(3,000.00)		(3,000.00)
Net cash provided (used) by noncapital financing activities		33.70	140.00	173.70
<u>Cash flows from investing activities:</u>				
Interest income	402.75	399.70	0.87	803.32
Net increase in cash and cash equivalents	42,656.49	5,898.15	1,751.91	50,306.55
Cash and cash equivalents, January 1	237,873.30	226,457.16	9,579.97	473,910.43
Cash and cash equivalents, December 31	280,529.79	232,355.31	11,331.88	524,216.98
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income	3,276.74	4,599.75	1,611.04	9,487.53
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	38,977.00	865.00		39,842.00
Net cash provided (used) by operating activities	42,253.74	5,464.75	1,611.04	49,329.53
=====				

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, 2016

	Major Enterprise Funds			
	Water	Sewer	Other Enterprise Fund	Total Enterprise Funds
<u>Cash flows from operating activities:</u>				
Receipts from customers	196,302.82	62,210.88	59,472.28	317,985.98
Payments to suppliers	(156,334.20)	(13,914.16)	(63,533.56)	(233,781.92)
Payments to employees	(46,890.91)	(30,231.95)		(77,122.86)
Net cash provided (used) by operating activities	(6,922.29)	18,064.77	(4,061.28)	7,081.20
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts		1,539.00	1,820.00	3,359.00
Transfers in		3,000.00		3,000.00
Transfers out		(3,000.00)		(3,000.00)
Net cash provided (used) by noncapital financing activities		1,539.00	1,820.00	3,359.00
<u>Cash flows from investing activities:</u>				
Interest income	428.89	378.03	1.04	807.96
Net increase in cash and cash equivalents	(6,493.40)	19,981.80	(2,240.24)	11,248.16
Cash and cash equivalents, January 1	244,366.70	206,475.36	11,820.21	462,662.27
Cash and cash equivalents, December 31	237,873.30	226,457.16	9,579.97	473,910.43
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(45,899.29)	17,199.77	(4,061.28)	(32,760.80)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	38,977.00	865.00		39,842.00
Net cash provided (used) by operating activities	(6,922.29)	18,064.77	(4,061.28)	7,081.20
=====				

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, 2017

	Agency Fund
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	106,862.14
<u>Liabilities:</u>	
Due to Other Governments	106,862.14
	=====

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, 2016

	Agency Fund
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	92,701.98
<u>Liabilities:</u>	
Due to Other Governments	92,701.98
	=====

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

CITY OF UNDERWOOD
Underwood, North Dakota

Notes to the Financial Statements
December 31, 2017 and 2016

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 including its fiduciary fund. 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 Special Assessments. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2016.

2016 Street Special Assessments. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2016.

Flood Water Drainage. This fund accounts for the issuance of special assessment bonds and grants from the State Water Commission used to fund a storm sewer improvement project.

2016 Street Construction. This fund accounts for the issuance of special assessment bonds, which were issued to fund the 2016 Street Construction Project.

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2017 the city's carrying amount of deposits was \$2,575,562 and the bank balance was \$2,584,095. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,334,095 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2016 the city's carrying amount of deposits was \$2,640,139 and the bank balance was \$2,662,030. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,412,030 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2017 the city held certificates of deposit in the amount of \$1,271,500, which are all considered deposits.

At December 31, 2016 the city held certificates of deposit in the amount of \$1,271,500, 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

The interfund receivable/payable is created by a negative cash balance in the Flood Water Special Assessments Fund. The amount shown as the interfund payable represents the amount of negative cash in this fund. The interfund receivables/payable for the year ended December 31, 2016 is as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	740,000.00	
Municipal Highway	59,994.94	
Flood Water Special Assessments		799,994.94

Note 5 CAPITAL ASSETS

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

Primary Government

	<u>2017</u>		
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>
Governmental Activities:			
<i>Capital assets not being depreciated:</i>			
Construction in Progress	6,145,001	566,859	6,711,860
<i>Capital assets being depreciated:</i>			
Buildings and Infrastructure	1,957,300	6,711,860	8,669,160
Machinery and Vehicles	289,265		289,265
Total	2,246,565	6,711,860	8,958,425
<i>Less accumulated depreciation for:</i>			
Buildings and Infrastructure	1,095,928	292,481	1,388,409
Machinery and Vehicles	240,327	9,151	249,478
Total	1,336,255	301,632	1,637,887
Total capital assets being depreciated, net	910,310	6,410,228	7,320,538
Governmental Activities Capital Assets, Net	7,055,311	6,977,087	6,711,860
	=====	=====	=====

	<u>2016</u>		
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>
Governmental Activities:			<u>Balance December 31</u>
<i>Capital assets not being depreciated:</i>			
Construction in Progress	3,396,000	2,749,001	6,145,001
<i>Capital assets being depreciated:</i>			
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>
<i>Less accumulated depreciation for:</i>			
Buildings and Infrastructure	1,015,797	80,131	1,095,928
Machinery and Vehicles	231,176	9,151	240,327
Total	<u>1,246,973</u>	<u>89,282</u>	<u>1,336,255</u>
Total capital assets being depreciated, net	<u>999,592</u>	<u>(89,282)</u>	<u>910,310</u>
Governmental Activities Capital Assets, Net	<u>4,395,592</u>	<u>2,659,719</u>	<u>-0-</u>
	=====	=====	=====

	<u>2017</u>		
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>
Business-type Activities:			<u>Balance December 31</u>
<i>Capital assets being depreciated:</i>			
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>
<i>Less accumulated depreciation for:</i>			
Buildings and Infrastructure	463,300	39,842	503,142
Machinery and Vehicles	26,055		26,055
Total	<u>489,355</u>	<u>39,842</u>	<u>529,197</u>
Business-type Activities Capital Assets, Net	<u>1,570,450</u>	<u>(39,842)</u>	<u>-0-</u>
	=====	=====	=====

	<u>2016</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>
Business-type Activities:				
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	423,458	39,842		463,300
Machinery and				
Vehicles	26,055			26,055
Total	<u>449,513</u>	<u>39,842</u>		<u>489,355</u>
Business-type Activities				
Capital Assets, Net	1,610,292	(39,842)	-0-	1,570,450
	=====	=====	=====	=====

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

	<u>2017</u>	<u>2016</u>
<u>Governmental Activities:</u>		
General Government	5,667	5,667
Public Safety	300	300
Streets and Public Works	282,925	70,575
Culture and Recreation	12,740	12,740
Total	<u>301,632</u>	<u>89,282</u>
	=====	=====
<u>Business-type Activities:</u>		
Water	38,977	38,977
Sewer	865	865
Total	<u>39,842</u>	<u>39,842</u>
	=====	=====

Discretely Presented Component Unit

	<u>2017</u>		
	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u> Balance <u>December 31</u>
Capital assets being depreciated:			
Buildings and Infrastructure	500,000		500,000
Less accumulated depreciation for:			
Buildings and Infrastructure	74,997	8,333	83,330
Capital Assets, Net	425,003	(8,333)	-0- 416,670
	=====	=====	=====

	<u>2016</u>		
	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u> Balance <u>December 31</u>
Capital assets being depreciated:			
Buildings and Infrastructure	500,000		500,000
Less accumulated depreciation for:			
Buildings and Infrastructure	66,664	8,333	74,997
Capital Assets, Net	433,336	(8,333)	-0- 425,003
	=====	=====	=====

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

	<u>2017</u>	<u>2016</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, 2017 and 2016, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

<u>2017</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>
General Obligation Bonds	175,000		15,000	160,000	15,000
Special Assessment Bonds	5,455,000		225,000	5,230,000	415,000
Total	5,230,000	-0-	240,000	5,390,000	430,000
	=====	=====	=====	=====	=====

<u>2016</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>
General Obligation Bonds	190,000		15,000	175,000	15,000
Special Assessment Bonds	3,930,000	7,647,323	2,623,323	5,455,000	225,000
Total	4,120,000	7,647,323	2,638,323	5,630,000	240,000
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2017 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, 2017, 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, 2017 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%.	160,000.00
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	15,000.00	6,481.00
2019	15,000.00	5,844.00
2020	15,000.00	5,207.00
2021	15,000.00	4,569.00
2022	20,000.00	3,825.00
2023-2026	80,000.00	6,800.00
Total	160,000.00	32,726.00
	=====	=====

Special Assessment Debt. The city has issued special assessment bonds to provide funds for various improvement projects. Special assessment bonds outstanding at December 31, 2017, are as follows:

\$515,000 Refunding Improvement Bonds of
2014, due in annual installments of \$40,000
to \$70,000 through May 1, 2022; interest is
at 1.1% to 2.05%. 280,000.00

\$5,100,000 Refunding Improvement Bonds of
2016, due in annual installments of \$150,000
to \$345,000 through May 1, 2032; interest is
at 1.1% to 3%. 4,950,000.00

Total 5,230,000.00
=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	415,000.00	113,732.50
2019	415,000.00	107,282.50
2020	395,000.00	100,705.00
2021	395,000.00	92,780.00
2022	385,000.00	84,957.50
2023-2027	1,715,000.00	325,938.75
2028-2032	1,510,000.00	101,850.00
Total	5,230,000.00	927,246.25
	=====	=====

Discretely Presented Component Unit Debt

Changes in Long-Term Liabilities. During the years ended December 31, 2017 and 2016, the following changes occurred in liabilities reported in the long-term liabilities - Component Unit:

<u>2017</u>					
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Revenue Bonds Payable	437,351	-0-	8,609	428,742	9,050
	=====	=====	=====	=====	=====

<u>2016</u>					
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Revenue Bonds Payable	445,541	-0-	8,190	437,351	9,050
	=====	=====	=====	=====	=====

Revenue Bond Debt. The Underwood Housing Authority has issued revenue bonds to provide funds for community housing. Revenue bonds outstanding at December 31, 2017, 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%.	428,741.71
	=====

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>December 31</u>		
2018	9,049.72	21,231.56
2019	9,512.72	20,768.56
2020	9,999.40	20,281.88
2021	10,510.99	19,770.29
2022	11,048.76	19,232.52
2023-2027	64,323.97	87,082.43
2028-2032	82,550.73	68,855.67
2033-2037	105,942.20	45,464.20
2038-2042	125,803.22	15,509.42
Total	428,741.71	318,196.53
	=====	=====

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, 2017</u>		
Recreation	15,000.00	
2014 Refunding Bonds	32,000.00	
General Fund		47,000.00
Flood Water Special Assess.	31,026.88	
Sales Tax		31,026.88
2016 Street Construction	349,590.82	
Surge Fund		349,590.82
To subsidize expenditures.		
2014 Refunding Bonds	49,373.35	
#12-2006 Special Assessments		22,666.54
Westridge Estates		26,706.81
To subsidize debt service payments.		
Flood Water Special Assess.	68,973.12	
Sales Tax		68,973.12
To pay out share of sales tax.		
2016 Street Special Assess.	232,537.12	
Flood Water Special Assess.	1,098,807.58	
2016 Street Construction		232,537.12
Flood Water Drainage		1,098,807.58
To close Capital Projects Funds.		
Wastewater Replacement	3,000.00	
Sewer Operating		3,000.00
To set-aside funds for future projects.		
<u>December 31, 2016</u>		
2016 Street Construction	300,000.00	
General Fund		200,000.00
Sales Tax		100,000.00
To subsidize expenditures.		
2014 Refunding Bonds	77,247.91	
General Fund		30,000.00
#12-2006 Special Assessments		20,574.81
Westridge Estates		26,673.10
Flood Water Special Assess.	57,275.30	
Sales Tax		57,275.30
To subsidize debt service payments.		
Flood Water Special Assess.	82,027.42	
Sales Tax		82,027.42
To pay out share of sales tax.		
Equipment Replacement	50,000.00	
Sales Tax		50,000.00
To set-aside funds for the purchase of equipment.		
Wastewater Replacement	3,000.00	
Sewer Operating		3,000.00
To set-aside funds for future projects.		

Note 8 DEFICIT FUND BALANCE

The following fund had a deficit balance at December 31, 2016:

<u>Debt Service Fund</u>	
Flood Water Special	
Assessments	(799,994.94)

The city eliminated this deficit during 2017 with a transfer from the Flood Water Drainage Fund.

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 \$926,000 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). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly 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.

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.

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

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

At December 31, 2017, the City of Underwood reported a liability of \$79,011 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016 the city's proportion was .008107 percent, which was a decrease of .000742 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2017 the city recognized pension expense of \$9,204. At December 31, 2017 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	1,187	732
Changes in assumptions	7,284	3,925
Net difference between projected and actual earnings on pension plan investments	11,023	
Changes in proportion and differences between employer contributions and proportionate share of contributions		5,936
City contributions subsequent to the measurement date (see below)	6,198	
Total	<u>25,692</u> =====	<u>10,593</u> =====

\$6,198 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 December 31, 2018.

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: -----	
2018	1,392
2019	1,392
2020	3,796
2021	1,982
2022	339
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. 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) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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%	1.52%
International Equity Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

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	112,075	79,011	51,152

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

CITY OF UNDERWOOD
Underwood, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	102,600.00	102,600.00	98,350.65	(4,249.35)
Licenses, Permits and Fees	10,105.00	10,105.00	9,073.44	(1,031.56)
Intergovernmental	177,000.00	177,000.00	190,074.03	13,074.03
Fines and Forfeits	12,000.00	12,000.00	8,843.00	(3,157.00)
Miscellaneous	11,150.00	11,150.00	16,375.30	5,225.30
Total Revenues	312,855.00	312,855.00	322,716.42	9,861.42
<u>Expenditures:</u>				
Current:				
General Government	133,115.00	133,115.00	122,617.74	10,497.26
Public Safety	82,819.00	82,819.00	82,618.08	200.92
Streets and Public Works	60,950.00	60,950.00	65,399.50	(4,449.50)
Health and Welfare	5,000.00	5,000.00	5,319.35	(319.35)
Culture and Recreation	10,000.00	10,000.00	9,304.60	695.40
Other	26,000.00	26,000.00	25,293.27	706.73
Total Expenditures	317,884.00	317,884.00	310,552.54	7,331.46
Excess (Deficiency) of Revenues Over Expenditures	(5,029.00)	(5,029.00)	12,163.88	17,192.88
<u>Other Financing (Uses):</u>				
Transfers Out	(70,000.00)	(102,000.00)	(47,000.00)	55,000.00
Net Change in Fund Balances	(75,029.00)	(107,029.00)	(34,836.12)	72,192.88
Fund Balance - January 1	740,435.71	740,435.71	740,435.71	
Fund Balance - December 31	665,406.71	633,406.71	705,599.59	72,192.88
=====				

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	98,950.00	98,950.00	94,487.21	(4,462.79)
Licenses, Permits and Fees	9,900.00	9,900.00	9,807.88	(92.12)
Intergovernmental	250,500.00	250,500.00	181,315.18	(69,184.82)
Fines and Forfeits	10,000.00	10,000.00	13,547.00	3,547.00
Miscellaneous	11,500.00	11,500.00	11,866.08	366.08
Total Revenues	380,850.00	380,850.00	311,023.35	(69,826.65)
<u>Expenditures:</u>				
Current:				
General Government	171,905.00	171,905.00	107,657.33	64,247.67
Public Safety	82,819.00	82,819.00	82,618.08	200.92
Streets and Public Works	60,450.00	60,450.00	53,317.69	7,132.31
Health and Welfare	5,000.00	5,000.00	5,215.40	(215.40)
Culture and Recreation	16,000.00	16,000.00	11,131.19	4,868.81
Other	20,000.00	20,000.00	21,256.47	(1,256.47)
Total Expenditures	356,174.00	356,174.00	281,196.16	74,977.84
Excess (Deficiency) of Revenues Over Expenditures	24,676.00	24,676.00	29,827.19	5,151.19
<u>Other Financing (Uses):</u>				
Transfers Out		(30,000.00)	(230,000.00)	(200,000.00)
Net Change in Fund Balances	24,676.00	(5,324.00)	(200,172.81)	(194,848.81)
Fund Balance - January 1	940,608.52	940,608.52	940,608.52	
Fund Balance - December 31	965,284.52	935,284.52	740,435.71	(194,848.81)
=====				

CITY OF UNDERWOOD
Underwood, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	62,380.00	62,380.00	66,969.13	4,589.13
Miscellaneous	500.00	500.00	1,083.26	583.26
Total Revenues	62,880.00	62,880.00	68,052.39	5,172.39
<u>Expenditures:</u>				
Current:				
Streets and Public Works	63,700.00	63,700.00	66,269.37	(2,569.37)
Net Change in Fund Balances	(820.00)	(820.00)	1,783.02	2,603.02
Fund Balance - January 1	279,731.84	279,731.84	279,731.84	
Fund Balance - December 31	278,911.84	278,911.84	281,514.86	2,603.02

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Municipal Highway Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	75,000.00	75,000.00	64,539.00	(10,461.00)
Miscellaneous	880.00	880.00	836.38	(43.62)
Total Revenues	75,880.00	75,880.00	65,375.38	(10,504.62)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	85,800.00	85,800.00	41,631.02	44,168.98
Net Change in Fund Balances	(9,920.00)	(9,920.00)	23,744.36	33,664.36
Fund Balance - January 1	255,987.48	255,987.48	255,987.48	
Fund Balance - December 31	246,067.48	246,067.48	279,731.84	33,664.36
	=====	=====	=====	=====

CITY OF UNDERWOOD
Underwood, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	300,000.00	300,000.00	275,892.42	(24,107.58)
Miscellaneous	300.00	300.00	306.95	6.95
Total Revenues	300,300.00	300,300.00	276,199.37	(24,100.63)
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	66,000.00	66,000.00	55,000.00	11,000.00
Culture and Recreation	75,000.00	75,000.00	68,973.11	6,026.89
Other			200.00	(200.00)
Total Expenditures	141,000.00	141,000.00	124,173.11	16,826.89
Excess (Deficiency) of Revenues Over Expenditures	159,300.00	159,300.00	152,026.26	(7,273.74)
<u>Other Financing (Uses):</u>				
Transfers Out	(75,000.00)	(106,026.88)	(100,000.00)	6,026.88
Net Change in Fund Balances	84,300.00	53,273.12	52,026.26	(1,246.86)
Fund Balance - January 1	245,543.43	245,543.43	245,543.43	
Fund Balance - December 31	329,843.43	298,816.55	297,569.69	(1,246.86)

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales Tax Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	360,000.00	360,000.00	328,109.68	(31,890.32)
Miscellaneous	380.00	380.00	30,313.70	29,933.70
Total Revenues	360,380.00	360,380.00	358,423.38	(1,956.62)
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	66,000.00	66,000.00	45,635.00	20,365.00
Culture and Recreation	90,000.00	90,000.00	82,027.42	7,972.58
Total Expenditures	156,000.00	156,000.00	127,662.42	28,337.58
Excess (Deficiency) of Revenues Over Expenditures	204,380.00	204,380.00	230,760.96	26,380.96
<u>Other Financing (Uses):</u>				
Transfers Out	(90,000.00)	(197,275.30)	(289,302.72)	(92,027.42)
Net Change in Fund Balances	114,380.00	7,104.70	(58,541.76)	(65,646.46)
Fund Balance - January 1	304,085.19	304,085.19	304,085.19	
Fund Balance - December 31	418,465.19	311,189.89	245,543.43	(65,646.46)

CITY OF UNDERWOOD
Underwood, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Surge Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Miscellaneous	20.00	20.00	27.53	7.53
<u>Expenditures:</u>				
Current:				
Streets and Public Works	300,000.00	300,000.00		300,000.00
Net Change in Fund Balances	(299,980.00)	(299,980.00)	27.53	300,007.53
Fund Balance - January 1	349,549.36	349,549.36	349,549.36	
Fund Balance - December 31	49,569.36	49,569.36	349,576.89	300,007.53

CITY OF UNDERWOOD
Underwood, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2017 and 2016

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 approved the following amendments to the city's budgets for the years ending:

December 31, 2017

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
<u>Transfers In</u>			
<u>Debt Service Funds</u>			
Flood Water Special Assessments		1,129,834	1,129,834
2016 Street Special Assessments		232,537	232,537
2014 Refunding Bonds	77,000	81,373	158,373
<u>Transfers Out</u>			
General Fund	70,000	32,000	102,000
<u>Special Revenue Fund</u>			
City Sales Tax	75,000	31,027	106,027
<u>Debt Service Funds</u>			
#12-2006 Special Assessments		22,667	22,667
Westridge Estates		26,707	26,707

December 31, 2016

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
		<u>Transfers In</u>	
<u>Special Revenue Fund</u>			
Equipment Replacement		50,000	50,000
<u>Debt Service Funds</u>			
Flood Water Special Assessments		57,275	57,275
2014 Refunding Bonds		77,248	77,248
		<u>Transfers Out</u>	
General Fund		30,000	30,000
<u>Special Revenue Fund</u>			
City Sales Tax	90,000	107,275	197,275
<u>Debt Service Funds</u>			
#12-2006 Special Assessments		20,575	20,575
Westridge Estates		26,673	26,673

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<u>Special Revenue Funds</u>		
Municipal Highway	2,569.37	
Recreation	11,851.72	
<u>Debt Service Funds</u>		
* Flood Water Special Assessments	279,881.86	3,547,323.67
Swimming Pool	82.75	86.25
2014 Refunding Bonds	71.00	71.00

* 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*

	2017 -----	2016 -----	2015 -----
City's proportion of the net pension liability	0.008107%	0.008849%	0.009067%
City's proportionate share of the net pension liability	79,011	60,172	57,550
City's covered-employee payroll	81,704	78,832	76,377
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	96.70%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

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

	2017 -----	2016 -----	2015 -----
Statutorily required contribution	5,817	5,613	5,060
Contributions in relation to the statutorily required contribution	(5,817)	(5,613)	(5,060)
Contribution deficiency (excess)	0	0	0
City's covered-employee payroll	81,704	78,832	76,377
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	6.63%

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

- For changes of assumptions, see Note 10 to the financial statements.

CITY OF UNDERWOOD
Underwood, North Dakota

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

	Balance 1-1-17	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-17
Major Governmental Funds						
<u>General Fund</u>						
General	345,852.50	244,421.56			310,552.54	279,721.52
Coal Severance	394,583.21	78,294.86		47,000.00		425,878.07
Total General Fund	740,435.71	322,716.42		47,000.00	310,552.54	705,599.59
Municipal Highway	279,731.84	68,052.39			66,269.37	281,514.86
Sales Tax	245,543.43	276,199.37		100,000.00	124,173.11	297,569.69
Surge Fund	349,576.89	13.93		349,590.82		
Flood Water Special Assessments	(799,994.94)	116,752.95	1,198,807.58		279,881.86	235,683.73
2016 Street Special Assessments		1.94	232,537.12			232,539.06
Flood Water Drainage	684,099.63	479,878.95		1,098,807.58	65,171.00	
2016 Street Construction	379,020.77	14,636.58	349,590.82	232,537.12	510,711.05	
Total Major Governmental Funds	1,878,413.33	1,278,252.53	1,780,935.52	1,827,935.52	1,356,758.93	1,752,906.93
<u>Non-Major Governmental Funds</u>						
Cemetery	18,298.49	136.72			1,449.06	16,986.15
Library	13,848.37	14,059.66			12,731.68	15,176.35
Recreation	4,257.85	4,796.63	15,000.00		16,001.72	8,052.76
Public Health	21,758.46	42.72				21,801.18
Public Buildings	54,474.31	75.01			10,819.00	43,730.32
Emergency	15,516.32	29.63				15,545.95
Equipment Replacement	50,000.00	2.78				50,002.78
Industrial Park	3,600.21	3,600.77				7,200.98
#12-2006 Special Assessments		22,666.54		22,666.54		
Westridge Estates		26,706.81		26,706.81		
Swimming Pool	12,247.54	23,302.57			23,301.75	12,248.36
2014 Refunding Bonds	1,112.01	0.22	81,373.35		81,654.50	831.08
Total Non-Major Governmental Funds	195,113.56	95,420.06	96,373.35	49,373.35	145,957.71	191,575.91
Total Governmental Funds	2,073,526.89	1,373,672.59	1,877,308.87	1,877,308.87	1,502,716.64	1,944,482.84
<u>Major Enterprise Funds</u>						
<u>Water:</u>						
Operating	202,752.29	204,916.84			186,981.63	220,687.50
Water Pipeline Maint. & Repair	15,107.87	1.13				15,109.00
Water Main Replacement	8,338.52	9,305.34			2.20	17,641.66
Water Meter Replacement	11,674.62	15,420.46			3.45	27,091.63
<u>Sewer:</u>						
Operating	119,188.00	65,304.86		3,000.00	59,615.29	121,877.57
Wastewater Replacement	107,269.16	208.58	3,000.00			110,477.74
Total Major Enterprise Funds	464,330.46	295,157.21	3,000.00	3,000.00	246,602.57	512,885.10
<u>Non-Major Enterprise Fund</u>						
Garbage	9,579.97	58,835.27			57,083.36	11,331.88
Total Enterprise Funds	473,910.43	353,992.48	3,000.00	3,000.00	303,685.93	524,216.98

(continued)

CITY OF UNDERWOOD
Underwood, North Dakota

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

	Balance 1-1-17	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-17
<u>Agency Fund</u>						
USDA Revolving Loan Fund	92,701.98	14,160.16				106,862.14
Total Primary Government	2,640,139.30	1,741,825.23	1,880,308.87	1,880,308.87	1,806,402.57	2,575,561.96
<u>Discretely Presented</u>						
<u>Component Units</u>						
Underwood Housing Authority	38,945.35	33,288.73			35,161.90	37,072.18
Underwood Area Economic Development Corporation	20,183.85	58,518.99			59,593.35	19,109.49
Total Discretely Presented Component Units	59,129.20	91,807.72			94,755.25	56,181.67
Total Reporting Entity	2,699,268.50	1,833,632.95	1,880,308.87	1,880,308.87	1,901,157.82	2,631,743.63

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
Major Governmental Funds						
<u>General Fund</u>						
General	395,052.08	231,996.58			281,196.16	345,852.50
Coal Severance	545,556.44	79,026.77		230,000.00		394,583.21
Total General Fund	940,608.52	311,023.35		230,000.00	281,196.16	740,435.71
Municipal Highway	255,987.48	65,375.38			41,631.02	279,731.84
Sales Tax	304,085.19	358,423.38		289,302.72	127,662.42	245,543.43
Surge Fund	349,549.36	27.53				349,576.89
Flood Water Special Assessments	60,698.91	2,547,327.10	139,302.72		3,547,323.67	(799,994.94)
Flood Water Drainage	70,313.52	3,464,471.36			2,850,685.25	684,099.63
2016 Street Construction		2,659,958.59	300,000.00		2,580,937.82	379,020.77
Total Major Governmental Funds	1,981,242.98	9,406,606.69	439,302.72	519,302.72	9,429,436.34	1,878,413.33
<u>Non-Major Governmental Funds</u>						
Cemetery	19,913.23	586.94			2,201.68	18,298.49
Library	11,864.34	15,470.42			13,486.39	13,848.37
Recreation	3,552.41	6,230.87			5,525.43	4,257.85
Public Health	21,718.98	39.48				21,758.46
Public Buildings	54,395.15	79.16				54,474.31
Emergency	15,488.85	27.47				15,516.32
Equipment Replacement			50,000.00			50,000.00
Industrial Park		3,600.21				3,600.21
#12-2006 Special Assessments		20,574.81		20,574.81		
Westridge Estates		26,673.10		26,673.10		
Swimming Pool	12,246.83	23,943.96			23,943.25	12,247.54
2014 Refunding Bonds	6,347.30	0.30	77,247.91		82,483.50	1,112.01
Total Non-Major Governmental Funds	145,527.09	97,226.72	127,247.91	47,247.91	127,640.25	195,113.56
Total Governmental Funds	2,126,770.07	9,503,833.41	566,550.63	566,550.63	9,557,076.59	2,073,526.89
<u>Major Enterprise Funds</u>						
<u>Water:</u>						
Operating	229,260.10	174,632.85			201,140.66	202,752.29
Water Pipeline Maint. & Repair	15,106.60	1.27				15,107.87
Water Main Replacement		8,338.52				8,338.52
Water Meter Replacement		13,759.07			2,084.45	11,674.62
<u>Sewer:</u>						
Operating	102,412.75	63,921.36		3,000.00	44,146.11	119,188.00
Wastewater Replacement	104,062.61	206.55	3,000.00			107,269.16
Total Major Enterprise Funds	450,842.06	260,859.62	3,000.00	3,000.00	247,371.22	464,330.46
<u>Non-Major Enterprise Fund</u>						
Garbage	11,820.21	61,293.32			63,533.56	9,579.97
Total Enterprise Funds	462,662.27	322,152.94	3,000.00	3,000.00	310,904.78	473,910.43

(continued)

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016
(continued)

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
<u>Agency Fund</u>						
USDA Revolving Loan Fund	74,017.58	18,684.40				92,701.98
Total Primary Government	2,663,449.92	9,844,670.75	569,550.63	569,550.63	9,867,981.37	2,640,139.30
<u>Discretely Presented</u>						
<u>Component Units</u>						
Underwood Housing Authority	36,803.19	40,886.64			38,744.48	38,945.35
Underwood Area Economic Development Corporation	48,631.45	43,460.17			71,907.77	20,183.85
Total Discretely Presented Component Units	85,434.64	84,346.81			110,652.25	59,129.20
Total Reporting Entity	2,748,884.56	9,929,017.56	569,550.63	569,550.63	9,978,633.62	2,699,268.50

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of 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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated June 22, 2018.

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, P.C.

Bismarck, North Dakota

June 22, 2018

CITY OF UNDERWOOD
Underwood, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016 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.