

**CITY OF WALHALLA
WALHALLA, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Walhalla
Walhalla, North Dakota

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walhalla, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the City's beginning net position and fund balances were restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of revenues, expenditures, and changes in fund balances - budget and actual - general fund on page 34, schedule of employer's share of net pension liability on page 35, schedule of employer contributions on page 36, and their related notes on page 37, be presented to supplement the basic financial statements. Such Information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2020, on our consideration of the City of Walhalla's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Walhalla's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

August 19, 2020

CITY OF WALHALLA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 795,361	\$ 591,868	\$ 1,387,229
Accounts Receivable (Net)	2,465	56,015	58,480
Intergovernmental Receivable, Net	32,513	-	32,513
Taxes Receivable	13,475	-	13,475
Notes Receivable	5,000	31,632	36,632
Special Assessments Receivable	867,736	-	867,736
Internal Balances	6,444	(6,444)	-
Prepaid Benefits and Insurance	14,712	5,546	20,258
Prepaid Maintenance	-	99,949	99,949
Total Current Assets	<u>1,737,706</u>	<u>778,566</u>	<u>2,516,272</u>
Notes Receivable	-	235,687	235,687
Capital Assets, Net	<u>2,673,827</u>	<u>1,008,814</u>	<u>3,682,641</u>
Total Noncurrent Assets	<u>2,673,827</u>	<u>1,244,501</u>	<u>3,918,328</u>
Total Assets	<u>4,411,533</u>	<u>2,023,067</u>	<u>6,434,600</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	100,385	128,995	229,380
Deferred Loss on Refunding	15,929	-	15,929
Total Deferred Outflows of Resources	<u>116,314</u>	<u>128,995</u>	<u>245,309</u>
LIABILITIES			
Deficit in Pooled Cash and Cash Equivalents	3,113	143,302	146,415
Accounts Payable	23,407	30,711	54,118
Salaries and Benefits Payable	4,002	-	4,002
Due to Others	389,074	-	389,074
Accrued Interest Payable	3,787	706	4,493
Long-Term Liabilities Due Within One Year	<u>224,682</u>	<u>45,565</u>	<u>270,247</u>
Total Current Liabilities	<u>648,065</u>	<u>220,284</u>	<u>868,349</u>
Refunding Improvement Bonds	580,000	-	580,000
Notes Payable	91,963	336,542	428,505
Bond Discounts	(4,874)	-	(4,874)
Net Pension Liability	182,499	234,506	417,005
Less Amounts Due within One Year	<u>(224,682)</u>	<u>(45,565)</u>	<u>(270,247)</u>
Total Noncurrent Liabilities	<u>624,906</u>	<u>525,483</u>	<u>1,150,389</u>
Total Liabilities	<u>1,272,971</u>	<u>745,767</u>	<u>2,018,738</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	26,384	33,905	60,289
Total Deferred Inflows of Resources	<u>26,384</u>	<u>33,905</u>	<u>60,289</u>
NET POSITION			
Net Investment in Capital Assets	1,990,809	672,272	2,663,081
Restricted for:			
General Government	15,345	-	15,345
Public Works	149,265	-	149,265
Health and Welfare	22,489	-	22,489
Culture and Recreation	22,851	-	22,851
Library	27,301	-	27,301
Airport	174,532	-	174,532
Cemetery	13,882	-	13,882
Debt Service	860,836	-	860,836
Unrestricted	<u>(48,818)</u>	<u>700,118</u>	<u>651,300</u>
Total Net Position	<u>\$ 3,228,492</u>	<u>\$ 1,372,390</u>	<u>\$ 4,600,882</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Operating		Governmental Activities	Primary Government		Total
		Charges for Services	Grants and Contributions		Capital Grants and Contributions	Governmental Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 221,901	\$ -	\$ -	\$ (195,066)	\$ -	\$ (195,066)	
Public Safety	112,887	-	-	(112,887)	-	(112,887)	
Public Works	240,392	-	59,748	(180,644)	-	(180,644)	
Culture and Recreation	2,185	-	-	(2,185)	-	(2,185)	
Economic Development	1,952	-	-	(1,952)	-	(1,952)	
Library	53,454	-	1,494	(51,960)	-	(51,960)	
Airport	135,837	15,063	9,641	(111,133)	-	(111,133)	
Cemetery	3,945	-	-	(3,945)	-	(3,945)	
Interest and Fees	23,333	-	-	(23,333)	-	(23,333)	
Total Governmental Activities	795,886	41,898	11,135	(683,105)	-	(683,105)	
Business-type Activities:							
Water	372,174	279,999	-	-	(92,175)	(92,175)	
Garbage and Sewer	103,518	263,349	-	-	159,831	159,831	
Clinic	19,563	6,000	-	-	(13,563)	(13,563)	
Community Development	52,666	6,550	-	-	(46,116)	(46,116)	
Swimming Pool	43,006	9,934	-	-	(33,072)	(33,072)	
Total Business-type Activities	590,927	565,832	-	-	(25,095)	(25,095)	
Total Primary Government	\$ 1,386,813	\$ 607,730	\$ 11,135	\$ (683,105)	(25,095)	(708,200)	
General Revenues:							
Property Taxes							
Property Taxes, Levied for General Purposes				145,538	-	145,538	
Property Taxes, Levied for Special Purposes				55,282	-	55,282	
City Sales Tax				154,324	-	154,324	
Unrestricted State Aid				127,070	-	127,070	
Interest				3,212	11,488	14,700	
Miscellaneous Revenue				19,921	6,729	26,650	
Transfers				146,610	(146,610)	-	
Total General Revenues and Transfers				651,957	(128,393)	523,564	
Change in Net Position				(31,148)	(153,488)	(184,636)	
Net Position - Beginning				2,241,031	1,635,085	3,876,116	
Prior Period Restatement - See Note 8				1,018,609	(109,207)	909,402	
Net Position - Beginning As Restated				3,259,640	1,525,878	4,785,518	
Net Position - Ending				\$ 3,228,492	\$ 1,372,390	\$ 4,600,882	

See Notes to the Financial Statements

CITY OF WALHALLA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Roads and Streets	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 391,278	\$ 139,795	\$ -	\$ 264,288	\$ 795,361
Accounts receivable	-	-	-	2,465	2,465
Intergovernmental receivable	24,910	6,932	-	671	32,513
Property taxes receivable	9,442	2,538	-	1,495	13,475
Note receivable	5,000	-	-	-	5,000
Special assessments receivable	-	-	867,736	-	867,736
Due from other funds	-	-	-	7,904	7,904
Prepaid benefits and insurance	3,806	1,039	-	9,867	14,712
Total Assets	434,436	150,304	867,736	286,690	1,739,166
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES					
Liabilities					
Deficit in pooled cash and cash equivalents	-	-	3,113	-	3,113
Accounts payable	22,882	-	-	525	23,407
Salaries and benefits payable	4,002	-	-	-	4,002
Due to others	389,074	-	-	-	389,074
Due to other funds	1,460	-	-	-	1,460
Total Liabilities	417,418	-	3,113	525	421,056
Deferred Inflows of Resources					
Unavailable revenue - property taxes	9,318	2,505	-	1,472	13,295
Unavailable revenue - special assessments	-	-	861,912	-	861,912
Total Deferred Inflows of Resources	9,318	2,505	861,912	1,472	875,207
FUND BALANCES					
Nonspendable	3,806	1,039	-	9,867	14,712
Restricted	-	146,760	2,711	274,826	424,297
Unassigned	3,894	-	-	-	3,894
Total Fund Balances	7,700	147,799	2,711	284,693	442,903
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 434,436	\$ 150,304	\$ 867,736	\$ 286,690	\$ 1,739,166

See Notes to the Financial Statements

CITY OF WALHALLA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
DECEMBER 31, 2017

Total Governmental Funds Balances \$ 442,903

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Capital Assets	6,444,564	
Accumulated Depreciation	<u>(3,770,737)</u>	2,673,827

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the governmental funds.

Property taxes	13,295	
Special assessments	<u>861,912</u>	875,207

Net deferred outflows/(inflows) of resources in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.

Deferred loss on refunding	15,929	
Deferred outflows - cost sharing defined benefit pension plan	100,385	
Deferred inflows - cost sharing defined benefit pension plan	<u>(26,384)</u>	89,930

Long-term liabilities are not due and payable in the current period and, therefore, are not included in the governmental funds:

Refunding Improvement Bonds	(580,000)	
Street Improvement Note	(91,963)	
Bond discounts	4,874	
Interest payable	(3,787)	
Net pension liability	<u>(182,499)</u>	<u>(853,375)</u>

Net Position of Governmental Activities \$ 3,228,492

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General	Roads and Streets	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 144,437	\$ 5,381	\$ 32,714	\$ 51,710	\$ 234,242
Special assessments	-	-	213,937	-	213,937
Sales taxes	152,260	-	-	2,064	154,324
Intergovernmental	55,860	68,592	-	13,752	138,204
Charges for services	26,835	-	-	15,063	41,898
Interest	2,824	3	-	385	3,212
Miscellaneous	1,605	4,347	-	13,969	19,921
Total Revenues	<u>383,821</u>	<u>78,323</u>	<u>246,651</u>	<u>96,943</u>	<u>805,738</u>
EXPENDITURES					
Current:					
General government	181,252	-	-	3,703	184,955
Public safety	109,760	-	-	-	109,760
Public works	-	73,540	-	-	73,540
Culture and recreation	-	-	-	2,185	2,185
Economic development	-	-	-	1,952	1,952
Library	15,597	-	-	37,857	53,454
Airport	-	-	-	15,799	15,799
Cemetery	-	-	-	3,945	3,945
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal retirement	37,268	-	228,784	-	266,052
Interest and fees	225	-	15,156	-	15,381
Total Expenditures	<u>344,102</u>	<u>73,540</u>	<u>243,940</u>	<u>65,441</u>	<u>727,023</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>39,719</u>	<u>4,783</u>	<u>2,711</u>	<u>31,502</u>	<u>78,715</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	223,275	2,248	-	36,463	261,986
Transfers out	(115,125)	-	-	(250)	(115,375)
Total other financing sources and uses	<u>108,150</u>	<u>2,248</u>	<u>-</u>	<u>36,213</u>	<u>146,611</u>
Net Change in Fund Balances	<u>147,869</u>	<u>7,031</u>	<u>2,711</u>	<u>67,715</u>	<u>225,326</u>
Fund Balances - Beginning	(482,753)	134,646	-	663,182	315,075
Equity Transfers - See Note 8	448,408	-	-	(448,408)	-
Prior Period Adjustment - See Note 8	(105,824)	6,122	-	2,204	(97,498)
Fund Balance - Beginning, As Restated	<u>(140,169)</u>	<u>140,768</u>	<u>-</u>	<u>216,978</u>	<u>217,577</u>
Fund Balances - Ending	<u>\$ 7,700</u>	<u>\$ 147,799</u>	<u>\$ 2,711</u>	<u>\$ 284,693</u>	<u>\$ 442,903</u>

See Notes to the Financial Statements

CITY OF WALHALLA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 225,326

Amounts reported for governmental activities in the statement of activities are different because:

Capital Outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

Capital Outlays	-
Depreciation Expense	(310,422)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Property Taxes	(33,422)
Special Assessments	(154,189)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

266,052

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

Changes in net pension liability and related deferred outflows and inflows of resources	(16,540)
Interest	(7,953)
	(24,493)

Changes in Net Position	\$ (31,148)
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See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

	Water	Garbage and Sewer	Clinic	Industrial Park	Development Fund	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 131,431	\$ 333,644	\$ 3,976	\$ -	\$ 9,231	\$ 113,586	\$ 591,868
Accounts receivable (net)	25,854	30,161	-	-	-	-	56,015
Due from other funds	69,884	69,884	-	-	-	-	139,768
Prepaid expenses	3,224	1,888	434	-	-	-	5,546
Prepaid maintenance	99,949	-	-	-	-	-	99,949
Notes Receivable, Current Portion	-	-	-	-	21,632	10,000	31,632
Total Current Assets	<u>330,342</u>	<u>435,577</u>	<u>4,410</u>	<u>-</u>	<u>30,863</u>	<u>123,586</u>	<u>924,778</u>
Non-Current Assets:							
Notes receivable, net of current portion	-	-	-	-	173,306	62,381	235,687
Capital assets:							
Sites	-	-	-	818,920	-	2,500	821,420
Buildings and additions	1,986,462	-	215,398	-	-	-	2,201,860
Equipment	46,680	402,435	106,843	-	-	47,381	603,339
Vehicles	9,520	-	-	-	-	23,500	33,020
Less accumulated depreciation	<u>(2,042,662)</u>	<u>(402,435)</u>	<u>(136,998)</u>	<u>-</u>	<u>-</u>	<u>(68,730)</u>	<u>(2,650,825)</u>
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>185,243</u>	<u>818,920</u>	<u>173,306</u>	<u>67,032</u>	<u>1,244,501</u>
Total Assets	<u>330,342</u>	<u>435,577</u>	<u>189,653</u>	<u>818,920</u>	<u>204,169</u>	<u>190,618</u>	<u>2,169,279</u>
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	88,797	40,198	-	-	-	-	128,995
Total Deferred Outflows of Resources	<u>88,797</u>	<u>40,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,995</u>
LIABILITIES							
Current Liabilities:							
Deficit in pooled cash and cash equivalents	143,302	-	-	-	-	-	143,302
Accounts payable	27,166	2,614	931	-	-	-	30,711
Interest payable	-	-	-	-	706	-	706
Due to other funds	6,445	-	50,462	-	-	89,305	146,212
Notes payable, current portion	-	-	23,933	-	21,632	-	45,565
Total Current Liabilities	<u>176,913</u>	<u>2,614</u>	<u>75,326</u>	<u>-</u>	<u>22,338</u>	<u>89,305</u>	<u>366,496</u>
Non-Current Liabilities:							
Notes payable, net of current portion	-	-	117,671	-	173,306	-	290,977
Net pension liability	161,429	73,077	-	-	-	-	234,506
Total Non-Current Liabilities	<u>161,429</u>	<u>73,077</u>	<u>117,671</u>	<u>-</u>	<u>173,306</u>	<u>-</u>	<u>525,483</u>
Total Liabilities	<u>338,342</u>	<u>75,691</u>	<u>192,997</u>	<u>-</u>	<u>195,644</u>	<u>89,305</u>	<u>891,979</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	23,339	10,566	-	-	-	-	33,905
Total Deferred Inflows of Resources	<u>23,339</u>	<u>10,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,905</u>
NET POSITION							
Net Investment in Capital Assets	-	-	43,639	818,920	(194,938)	4,651	672,272
Unrestricted	57,458	389,518	(46,983)	-	203,463	96,662	700,118
Total Net Position	<u>\$ 57,458</u>	<u>\$ 389,518</u>	<u>\$ (3,344)</u>	<u>\$ 818,920</u>	<u>\$ 8,525</u>	<u>\$ 101,313</u>	<u>\$ 1,372,390</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Water</u>	<u>Garbage and Sewer</u>	<u>Clinic</u>	<u>Industrial Park</u>	<u>Development Fund</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES:							
Charges for service	\$ 279,999	\$ 263,349	\$ 6,000	\$ -	\$ -	\$ 16,484	\$ 565,832
Other	-	-	906	-	-	5,823	6,729
Total Operating Revenues	<u>279,999</u>	<u>263,349</u>	<u>6,906</u>	<u>-</u>	<u>-</u>	<u>22,307</u>	<u>572,561</u>
OPERATING EXPENSES:							
Water Utility Services	372,174	-	-	-	-	-	372,174
Garbage and Sewer Services	-	103,518	-	-	-	-	103,518
Clinic	-	-	3,314	-	-	-	3,314
Community Development	-	-	-	-	1,326	34,095	35,421
Swimming Pool	-	-	-	-	-	43,006	43,006
Depreciation	-	-	16,249	-	-	6,649	22,898
Total Operating Expenses	<u>372,174</u>	<u>103,518</u>	<u>19,563</u>	<u>-</u>	<u>1,326</u>	<u>83,750</u>	<u>580,331</u>
Operating Income (Loss)	<u>(92,175)</u>	<u>159,831</u>	<u>(12,657)</u>	<u>-</u>	<u>(1,326)</u>	<u>(61,443)</u>	<u>(7,770)</u>
NON-OPERATING REVENUES (EXPENSES):							
Interest income	-	-	-	-	11,081	407	11,488
Interest and service charges	-	-	-	-	(10,300)	(296)	(10,596)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>781</u>	<u>111</u>	<u>892</u>
Income (Loss) before contributions transfers	<u>(92,175)</u>	<u>159,831</u>	<u>(12,657)</u>	<u>-</u>	<u>(545)</u>	<u>(61,332)</u>	<u>(6,878)</u>
Transfers in	-	-	25,928	-	-	40,000	65,928
Transfers out	<u>(138,706)</u>	<u>(10,097)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,735)</u>	<u>(212,538)</u>
Changes in Net Position	<u>(230,881)</u>	<u>149,734</u>	<u>13,271</u>	<u>-</u>	<u>(545)</u>	<u>(85,067)</u>	<u>(153,488)</u>
Total Net Position - Beginning	369,679	276,606	(16,615)	818,920	(8,704)	195,199	1,635,085
Prior Period Adjustment - See Note 8	<u>(81,340)</u>	<u>(36,822)</u>	<u>-</u>	<u>-</u>	<u>17,774</u>	<u>(8,819)</u>	<u>(109,207)</u>
Total Net Position - Beginning, as Restated	<u>288,339</u>	<u>239,784</u>	<u>(16,615)</u>	<u>818,920</u>	<u>9,070</u>	<u>186,380</u>	<u>1,525,878</u>
Total Net Position - Ending	<u>\$ 57,458</u>	<u>\$ 389,518</u>	<u>\$ (3,344)</u>	<u>\$ 818,920</u>	<u>\$ 8,525</u>	<u>\$ 101,313</u>	<u>\$ 1,372,390</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Water	Garbage and Sewer	Clinic	Industrial Park	Development Fund	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	\$ 292,458	\$ 251,288	\$ 6,000	\$ -	\$ -	\$ 10,984	\$ 560,730
Payments to Suppliers	(29,595)	(49,481)	(2,930)	-	(1,326)	(27,706)	(111,038)
Payments to Employees	(109,510)	(47,529)	-	-	-	(21,479)	(178,518)
Other Operating Revenue	-	-	906	-	-	5,823	6,729
Net Cash Provided (Used) by Operating Activities	<u>153,353</u>	<u>154,278</u>	<u>3,976</u>	<u>-</u>	<u>(1,326)</u>	<u>(32,378)</u>	<u>277,903</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers In	-	-	25,928	-	-	40,000	65,928
Transfers Out	(138,706)	(10,097)	-	-	-	(63,735)	(212,538)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(138,706)</u>	<u>(10,097)</u>	<u>25,928</u>	<u>-</u>	<u>-</u>	<u>(23,735)</u>	<u>(146,610)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal Payments on Long-Term Debt	-	-	(25,928)	-	(20,600)	(5,215)	(51,743)
Interest and Fiscal Charges on Debt	-	-	-	-	(10,457)	(296)	(10,753)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(25,928)</u>	<u>-</u>	<u>(31,057)</u>	<u>(5,511)</u>	<u>(62,496)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Payments Received on Notes Receivable	-	-	-	-	20,600	10,482	31,082
Interfund Payments	-	-	-	-	5,933	(5,933)	-
Interest Income	-	-	-	-	11,081	875	11,956
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,614</u>	<u>5,424</u>	<u>43,038</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,647	144,181	3,976	-	5,231	(56,200)	111,835
Cash and Cash Equivalents, January 1	116,784	189,463	-	-	4,000	169,786	480,033
Cash and Cash Equivalents, December 31	<u>\$ 131,431</u>	<u>\$ 333,644</u>	<u>\$ 3,976</u>	<u>\$ -</u>	<u>\$ 9,231</u>	<u>\$ 113,586</u>	<u>\$ 591,868</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ (92,175)	\$ 159,831	\$ (12,657)	\$ -	\$ (1,326)	\$ (61,443)	\$ (7,770)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation and Amortization Expense	-	-	16,249	-	-	6,649	22,898
Bad Debts	-	-	-	-	-	28,387	28,387
Changes in Assets and Liabilities:							
Accounts Receivable	12,459	(12,061)	-	-	-	-	398
Notes Receivable - Rent	-	-	-	-	-	(5,500)	(5,500)
Prepaid Benefits	(732)	708	-	-	-	-	(24)
Other Prepaid Expenses	87,279	41	(434)	-	-	-	86,886
Deferred Pension Outflows	(45,068)	(20,402)	-	-	-	-	(65,470)
Deficit in Pooled Cash and Cash Equivalents	143,302	-	-	-	-	-	143,302
Accounts Payable	(11,169)	(744)	818	-	-	(471)	(11,566)
Salaries and Benefits Payable	(242)	(120)	-	-	-	-	(362)
Net Pension Liability	67,173	30,408	-	-	-	-	97,581
Deferred Pension Inflows	(7,474)	(3,383)	-	-	-	-	(10,857)
Net Cash Provided (Used) by Operating Activities	<u>\$ 153,353</u>	<u>\$ 154,278</u>	<u>\$ 3,976</u>	<u>\$ -</u>	<u>\$ (1,326)</u>	<u>\$ (32,378)</u>	<u>\$ 277,903</u>

See Notes to the Financial Statements

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Walhalla (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. The more significant of the City's accounting policies are described below.

Reporting Entity

The City was incorporated under the provisions of the State of North Dakota, operating under a council - mayor form of government. The City provides public safety (police and fire), streets, social services, cultural recreation, public improvements, planning and zoning, general and administrative services as authorized by its charter. Other services include water, garbage, and a municipal airport. There were no component units as determined by financial accountability or by nature and significance of relationships.

Financial accountability includes the ability of the primary government to appoint a voting majority to the organization's governing board, and is either able to impose its will on the organization or there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Basis of Presentation

The City's basic financial statements consist of government-wide financial statements (which consist of a statement of net position and a statement of activities) and fund financial statements (which provide a more detailed level of financial information).

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The effect of interfund activity has been removed from these financial statements. Individual funds are not displayed but the statements distinguish governmental activities, normally supported by taxes, grants and the City's general revenues, from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net position presents the financial position of the governmental activities of the City and its discretely presented component units, if any, at year end.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with distinct functional activity.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Program revenues include (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions that finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is which function the revenues are restricted.

Taxes and other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenue of the City.

Fund Financial Statements

Fund financial statements are designed to present financial information of the City at a more detailed level. During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are provided for governmental funds and proprietary funds.

Major individual governmental funds and enterprise funds are reported in separate columns.

The City uses funds to maintain its financial records during the year. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts.

Funds are classified into the following categories: governmental and proprietary.

Governmental Funds

Government funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City and accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Roads and Streets Fund -The Roads and Streets Fund is used by the City to account for the revenues and expenditures relating to road and street maintenance projects within the city limits.

Debt Service Fund - The Debt Service Fund is used to account for the City's repayments of capital lease obligations and bond retirements.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, net position and cash flows. Proprietary funds are classified as enterprise funds and internal service funds. The following are the City's major proprietary funds:

Water System Fund - The Water System Fund accounts for revenues and expenses associated with providing water services to the City's residents.

Garbage and Sewer Fund - The Garbage and Sewer Fund accounts for revenues and expenses associated with refuse collection and with providing waste water treatment services to the City's residents.

Clinic Fund - The Clinic Fund accounts for revenues and expenses associated with facilities for a local medical clinic to operate.

Industrial Park Fund - The Industrial Park Fund accounts for the revenues and expenses associated with providing an industrial park for economic development.

Development Fund - The Development Fund accounts for revenues and expenses associated with business development in the City.

Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

In the fund financial statements, all governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on this balance sheet. The statement of revenues, expenditures and changes in fund balance reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Like the government-wide statements, all proprietary funds are accounted on a flow of economic resources measurement focus on both reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statements of cash flows provides information about how a government finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available" means expected to be received within 60 days of year end.

Revenue resulting from non-exchange transactions, in which the City receives value without directly giving equal value in return, includes property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used, or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: Property taxes, interest and federal and state grants.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, which use the modified basis of accrual, receivables that will not be collected within the 60 days have been reported as deferred revenue because they are measurable but not available.

Grants and entitlements received before the eligibility requirements are met (cash advances) are recorded as deferred revenue.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of less than three months.

Prepaid Expenses

Prepaid expenses represent payments made to vendors that benefit future reporting periods. The prepaid items are recognized as an expense/expenditure in the year the services are consumed.

Prepaid maintenance consists of funds on deposit with Northeast Regional Water District (NRWD) as part of an agreement to provide water to the City. \$99,949 has been placed into a holding fund for the City to be maintained as part of NRWD's operating agreement. These funds will be used to fund future line repairs.

Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the City fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets, except infrastructure, are capitalized at historical cost, or estimated historical cost if historical cost is not available, and updated for additions and retirements during the year. Donated capital assets are valued at their estimated acquisition value on the date received. The City's infrastructure consists of roads, bridges and water and sewer lines. As a "Phase 3" government entity, the City has elected not to retroactively report any major general infrastructure assets. The City maintains the following capitalization thresholds:

Sites	\$25,000
Buildings and Additions	\$25,000
Heavy Equipment	\$10,000
Office Equipment	\$2,500
Vehicles	\$10,000

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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

All reported capital assets are depreciated except for sites, construction in progress, and deposits on undelivered equipment. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and Additions	25 years
Heavy Equipment	5 years
Office Equipment	5 years
Vehicles	5 years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has two items reported on the statement of net position that qualify for reporting in this category. The item *cost sharing defined benefit pension plan* represents actuarial differences within the NDPERS pension plan as well as amounts paid to the plans after the measurement date. See Note 10 for more details. The City also has one item reported as *deferred loss on refunding* which is being amortized as a component of interest expenses over the life of the refunding improvement bond.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, *unavailable property taxes* and *uncertified special assessments* are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS pension plan. See Note 10 for more details.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds.

Bond Premiums, Discounts and Issuance Costs

On the government-wide and proprietary fund type statements of activities, bond premiums and discounts are deferred and amortized over the life of the bonds.

At the governmental fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as an expenditure.

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".

Generally, fund balance represents the difference between the current assets and current liabilities. As per GASB No. 54, fund balances for governmental funds are reported in 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. The following classifications are used by the City:

The *nonspendable fund balance* classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The *restricted fund balance* classification includes amounts where constraints placed on the use of resources are either externally imposed by creditors, granters, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

The *committed fund balance* classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of a simple majority of the Council, the City's highest level of decision-making authority.

The *assigned fund balance* classification includes amounts that are constrained by the Council's intent to be used for specific purposes, but are neither restricted nor committed.

The *unassigned fund balance* classification is the residual classification for the general fund representing the fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, granters or laws or regulations of other governments. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available, and committed and assigned fund balances first when both these and unassigned fund balances are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. These revenues are charges for services to external customers for water, sewer, solid waste, clinic use, and swimming. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of each fund.

Pensions

For purposes of measuring the 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 Public Employees Retirement System (NDPERS) and 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.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

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.

The City follows North Dakota Statutes that require the City to make deposits with 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.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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 investment 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, city, park district, or 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 any state of the United States or such other securities approved by the banking board.

As of December 31, 2017, the City's bank balances were \$1,258,021. Of the bank balances, \$836,850 was covered by Federal Depository Insurance. The remaining bank balances of \$421,171 were 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:

- 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.
- Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- Certificates of Deposit fully insured by the federal deposit insurance corporation.
- Obligations of the state.

As of December 31, 2017, the City held certificates of deposit totaling \$424,351.

NOTE 3. PROPERTY TAXES

Property taxes are levied July 31 of each year on property values assessed by the previous February. Taxes paid by February 15 of the following year receive a discount of 5%. Regular payment dates are March 1 and October 15. A tax lien becomes enforceable on unpaid taxes the following January.

The City records taxes receivable at net realizable value. The City considers all taxes receivable to be collectible as of December 31. The City's policy is to record the net taxes receivable as an asset, with a deferred revenue account to recognize taxes not expected to be available within 60 days.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities Capital Assets:				
Sites	\$ -	\$ -	\$ -	\$ -
Buildings	2,304,306	-	-	2,304,306
Street Paving	2,474,277	-	-	2,474,277
Heavy Equipment	426,374	-	-	426,374
Office Equipment	17,161	-	-	17,161
Vehicles	62,040	-	-	62,040
Airport Project	1,160,406	-	-	1,160,406
Total Gov't Activities Capital Assets	<u>6,444,564</u>	<u>-</u>	<u>-</u>	<u>6,444,564</u>
Accumulated Depreciation				
Buildings	1,497,483	92,173	-	1,589,656
Street Paving	1,402,090	164,952	-	1,567,042
Heavy Equipment	417,825	1,900	-	419,725
Office Equipment	14,380	1,854	-	16,234
Vehicles	58,913	3,127	-	62,040
Airport Project	69,624	46,416	-	116,040
Total Accumulated Depreciation	<u>3,460,315</u>	<u>310,422</u>	<u>-</u>	<u>3,770,737</u>
Net Capital Assets - Gov't Activities	<u>\$ 2,984,249</u>	<u>\$ (310,422)</u>	<u>\$ -</u>	<u>\$ 2,673,827</u>

Depreciation was charged to governmental activities as follows:

General & Library	\$ 20,405
Public Safety	3,127
Airport	120,038
Highway	<u>166,852</u>
Total Depreciation Expense	<u>\$ 310,422</u>

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

	Beginning Balance	Additions	Disposals	Ending Balance
Business Type Capital Assets:				
Sites	\$ 821,420	\$ -	\$ -	\$ 821,420
Buildings	2,201,860	-	-	2,201,860
Office Equipment	603,339	-	-	603,339
Vehicles	33,020	-	-	33,020
Total Business Type Capital Assets	3,659,639	-	-	3,659,639
 Accumulated Depreciation				
Sites	-	-	-	-
Buildings	2,008,002	8,615	-	2,016,617
Office Equipment	589,255	11,933	-	601,188
Vehicles	30,670	2,350	-	33,020
Total Accumulated Depreciation	2,627,927	22,898	-	2,650,825
Net Capital Assets - Business Type	\$ 1,031,712	\$ (22,898)	\$ -	\$ 1,008,814

Depreciation was charged to business-type activities as follows:

Clinic	\$ 16,249
Nonmajor Proprietary Funds	6,649
Total Depreciation Expense	\$ 22,898

NOTE 5. BONDS, NOTES, OBLIGATIONS UNDER A CAPITAL LEASE AND OTHER LONG-TERM OBLIGATIONS

On January 6, 2014, the City issued \$1,465,000 in Refunding Improvement Bonds of 2014 for a street improvement project. Net proceeds from the bond issue were \$1,451,815 after discounts of \$13,185. Interest accrues at an average rate of 1.81% annually on the outstanding balance. Annual principal payments range from \$190,000 to \$245,000 until maturity on May 1, 2020. The balance on December 31, 2017 was \$385,000 less an un-amortized discount of \$4,874.

On October 23, 2014, the City borrowed \$171,462 from Choice Financial Group to finance street improvements. Interest accrues at 2.95%. The loan matures on April 1, 2020. The balance on the note on December 31, 2017 was \$91,963.

On May 5, 2013, the Walhalla Economic Development Commission borrowed \$100,000 from Citizens State Bank - Midwest, due on demand. The City was guarantor on the loan. In 2013, the Economic Development Commission defaulted on the loan. In 2014, the City agreed to make a series of payments totaling \$25,000. On May 15, 2016, the City agreed to make payments on the note in the amount of \$5,000 per quarter. During 2017 this note was paid in full.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

On June 10, 2010, the City entered into a loan arrangement with Choice Financial Group and the State of North Dakota to finance a commercial building as follows:

\$166,000 was borrowed from Choice Financial Group. Interest accrues at 6.65% less a 1.65% Interest buy down for the first 5 years. The loan matures in 2025. The balance on the note on December 31, 2017 was \$108,587.

\$149,500 was borrowed from the State of North Dakota. Interest accrues at 3.0%. Monthly payments of \$1,074 are due until the loan matures in 2025. The balance on December 31, 2017 was \$86,351.

On January 29, 2014, the City borrowed \$215,398 from United Telephone Mutual Aid Corporation to finance the renovations of the clinic. The loan does not accrue interest and matures on December 31, 2023. Monthly payments began January 31, 2015. The balance on the note on December 31, 2017 was \$141,604.

During the year, the City had the following additions and retirements:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Debt Issued</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Refunding Improvement Bond	\$ 780,000	\$ -	\$ 200,000	\$ 580,000	\$ 195,000
Bond Discount	(7,032)		(2,158)	(4,874)	-
Street Improvement Note	120,747	-	28,784	91,963	29,682
EDC Guarantee	<u>37,268</u>	-	<u>37,268</u>	-	-
Governmental Activities Long-Term Liabilities	<u>\$ 930,983</u>	<u>\$ -</u>	<u>\$ 263,894</u>	<u>\$ 667,089</u>	<u>\$ 224,682</u>
 <u>Business-Type Activities:</u>					
Commercial Building #1	\$ 119,069	\$ -	\$ 10,482	\$ 108,587	\$ 11,205
Commercial Building #2	96,469	-	10,118	86,351	10,427
Clinic Renovation	<u>167,532</u>	-	<u>25,928</u>	<u>141,604</u>	<u>23,933</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 383,070</u>	<u>\$ -</u>	<u>\$ 46,528</u>	<u>\$ 336,542</u>	<u>\$ 45,565</u>

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Future payments of principal and interest are as follows (Governmental Activities):

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2018	\$ 195,000	\$ 9,150
2019	195,000	6,030
2020	190,000	2,138
Total	<u>\$ 580,000</u>	<u>\$ 17,318</u>

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2018	\$ 29,682	\$ 2,743
2019	30,573	1,853
2020	31,708	933
Total	<u>\$ 91,963</u>	<u>\$ 5,529</u>

Future payments of principal and interest on the notes are as follows (Business-type Activities):

Year Ending December 31,	Business-Type Activities	
	Principal	Interest
2018	\$ 45,565	\$ 9,426
2019	46,728	8,263
2020	47,899	7,091
2021	49,120	5,871
2022	50,411	4,580
2023-25	96,819	5,308
Total	<u>\$ 336,542</u>	<u>\$ 40,539</u>

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2017, the Water Fund owes the Cemetery Fund \$6,445 for a past debt.

At December 31, 2017, the Clinic Fund owes the Water Fund \$25,231 and the Garbage and Sewer Fund \$25,231 for an infusion of cash to eliminate a deficit cash balance.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

At December 31, 2017, the Swimming Pool Fund owes the Water Fund \$44,653 and the Garbage and Sewer Fund \$44,653 for an Infusion of cash to eliminate a deficit cash balance.

At December 31, 2017, the General Fund owes the Airport Fund \$1,460 for a State Aid.

NOTE 7. INTERFUND OPERATING TRANSFERS

Transfers for the year ended December 31, 2017 were as follows:

Purpose	Governmental Funds			Proprietary Funds			
	General Fund	Roads and Streets	Nonmajor	Water	Garbage and Sewer	Clinic	Nonmajor
Excess water revenue	\$ 125,314	\$ -	\$ -	\$(125,314)	\$ -	\$ -	\$ -
Sales tax revenue	(40,000)	-	-	-	-	-	40,000
Close fund	63,735	-	-	-	-	-	(63,735)
Debt service	(25,928)	-	-	-	-	25,928	-
Other operating transfers	(14,971)	2,248	36,213	(13,392)	(10,097)	-	-
Total transfers (net)	<u>\$ 108,150</u>	<u>\$ 2,248</u>	<u>\$ 36,213</u>	<u>\$(138,706)</u>	<u>\$ (10,097)</u>	<u>\$ 25,928</u>	<u>\$ (23,735)</u>

NOTE 8. PRIOR PERIOD ADJUSTMENTS AND EQUITY TRANSFERS

Prior period adjustments were made to correct beginning intergovernmental receivables/payables, deferred revenue, special assessments receivable, and bond issuance costs and to allocate beginning net pension liability and related deferred outflows and inflows between governmental activities and proprietary funds.

Additionally, the City Sales Tax fund balance of \$466,069 and Flex Insurance fund deficit of \$17,661 were transferred from special revenue fund types to a general fund type during the year ended December 31, 2017.

As a result, beginning net position and fund balance were restated as follows:

	Net Position					
	Water	Garbage and Sewer	Development Fund	Nonmajor Proprietary Funds	Business-Type Activities	Governmental Activities
January 1, 2017, as previously reported	\$ 369,679	\$ 276,606	\$ (8,704)	\$ 195,199	\$ 1,635,085	\$ 2,241,031
Intergovernmental receivables/payables	-	-	17,774	(8,819)	8,955	(112,296)
Deferred revenue	-	-	-	-	-	14,798
Pension liability and related deferrals	(81,340)	(36,822)	-	-	(118,162)	118,162
Special assessments receivable	-	-	-	-	-	1,016,101
Bond issuance costs	-	-	-	-	-	(18,156)
Total prior period adjustments	<u>(81,340)</u>	<u>(36,822)</u>	<u>17,774</u>	<u>(8,819)</u>	<u>(109,207)</u>	<u>1,018,609</u>
January 1, 2017, restated	<u>\$ 288,339</u>	<u>\$ 239,784</u>	<u>\$ 9,070</u>	<u>\$ 186,380</u>	<u>\$ 1,525,878</u>	<u>\$ 3,259,640</u>

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

	Fund Balance		
	General Fund	Roads and Streets	Nonmajor Governmental Funds
January 1, 2017, as previously reported	\$ (482,753)	\$ 134,646	\$ 663,182
Intergovernmental receivables/payables	(120,622)	6,122	2,204
Deferred revenue	14,798	-	-
Equity transfers	448,408	-	(448,408)
Total	342,584	6,122	(446,204)
January 1, 2017, restated	\$ (140,169)	\$ 140,768	\$ 216,978

NOTE 9. TAX ABATEMENTS

The City has implemented the provisions of GASB Statement No. 77 - Tax Abatement Disclosures. As per this provision, governments who enter into tax abatement agreements are required to disclose brief descriptive information such as tax being abated, authority under which tax abatements are provided, eligibility criteria, mechanism by which taxes are abated, provisions for recapturing abated taxes, gross dollar amount of taxes abated and any other commitments made by the government as part of the tax abatement agreement. The City has no tax abatement agreements in effect for the year ended December 31, 2017 requiring disclosure.

NOTE 10. PENSION PLAN

North Dakota Public Employees Retirement Systems (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 plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan 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 the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the Board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Pension Benefits

Benefits are set by statute. NDPERS has no provisions 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balances

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.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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 of 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 weighing 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00%	6.05%
International Equity	21.00%	6.70%
Private Equity	5.00%	10.20%
Domestic Fixed Income	17.00%	1.43%
International Fixed Income	5.00%	-0.45%
Global Real Assets	20.00%	5.16%
Cash Equivalents	1.00%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Sensitivity of the City's proportionate share of the net pension liability to changes in discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	\$ 566,097	\$ 417,005	\$ 292,967

Pension Plan Fiduciary Net Position

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2017 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 12. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Formal budgetary integration is employed as a management control device during the year for the general fund. Budgetary control for funds not formally budgeted is achieved through financial management plans or as a result of established ordinances and State Statutes.

The legal level of control (the level for which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within the general fund. Any change in total to a fund or departmental appropriation within the fund requires City Council approval.

The following individual funds had a deficit fund balance at the fund reporting level at year end:

Clinic Fund	\$3,344
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At December 31, 2017, the clinic fund has a deficit balance of \$3,344 due to unfunded expenditures. The City plans to transfer monetary funds from other funds to cover the deficit balance.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 13. MANAGEMENT

The City is exposed to various risks including, but not limited to, losses from worker's compensation, employee health insurance, public liability, and general property and casualty. The City has contracted with third party insurance carriers for specific and aggregate stop loss coverage to limit the City's exposure to losses. There was a no reduction in insurance coverage from the prior year. Settlement claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 14. SUBSEQUENT EVENTS

In April of 2018 the City was notified by the ND Department of Commerce that amounts due from the City for economic development loans totaling \$381,776 had been written off. These loans are included with liabilities as Due to Others on the statement of net position and governmental funds balance sheet.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. At this time, the extent of the impact this matter will have on the City's results of operations and financial condition is uncertain.

No other significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through August 19, 2020, which is the date these financial statements were available to be issued.

CITY OF WALHALLA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original and Final</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 203,500	\$ 144,437	\$ (59,063)
Sales Taxes	-	152,260	152,260
Intergovernmental	82,500	55,860	(26,640)
Charges for services	29,600	26,835	(2,765)
Interest	1,400	2,824	1,424
Miscellaneous	<u>7,500</u>	<u>1,605</u>	<u>(5,895)</u>
Total Revenues	<u>324,500</u>	<u>383,821</u>	<u>59,321</u>
EXPENDITURES			
Current:			
General government	151,100	181,252	(30,152)
Public safety	90,000	109,760	(19,760)
Library	-	15,597	(15,597)
Capital Outlay	5,000	-	5,000
Debt Service:			
Principal retirement	-	37,268	(37,268)
Interest and fees	<u>-</u>	<u>225</u>	<u>(225)</u>
Total Expenditures	<u>246,100</u>	<u>344,102</u>	<u>(98,002)</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>78,400</u>	<u>39,719</u>	<u>(38,681)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	40,000	223,275	183,275
Transfers out	<u>(105,000)</u>	<u>(115,125)</u>	<u>(10,125)</u>
Total other financing sources and uses	<u>(65,000)</u>	<u>108,150</u>	<u>173,150</u>
Net Change in Fund Balances	<u>13,400</u>	<u>147,869</u>	<u>134,469</u>
Fund Balances - Beginning	(482,753)	(482,753)	-
Equity Transfers - See Note 8	-	448,408	448,408
Prior Period Adjustment - See Note 8	<u>-</u>	<u>(105,824)</u>	<u>(105,824)</u>
Fund Balance - Beginning, As Restated	<u>(482,753)</u>	<u>(140,169)</u>	<u>342,584</u>
Fund Balances - Ending	<u>\$ (469,353)</u>	<u>\$ 7,700</u>	<u>\$ 477,053</u>

See Notes to the Required Supplementary Information

CITY OF WALHALLA
SCHEDULE OF EMPLOYER'S SHARE OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.025944%	0.024983%	0.017632%
Employer's proportionate share of the net pension liability (asset)	\$ 417,005	\$ 243,484	\$ 119,895
Employer's covered-employee payroll	\$ 264,847	\$ 251,769	\$ 157,082
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-	157.45%	96.71%	76.33%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%

The amounts presented for each year were determined as of the measurement date of the collective net pension liability which is June 30.

The City implemented GASB Statement No. 68 for the year ended December 31, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

CITY OF WALHALLA
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE NDPERS
LAST 10 FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 19,287	\$ 18,228	\$ 11,931
Contributions in relation to the statutorily required contribution	\$ (19,287)	\$ (16,926)	\$ (14,281)
Contribution deficiency (excess)	\$ -	\$ 1,302	\$ (2,350)
Employer's covered-employee payroll	\$ 270,882	\$ 251,769	\$ 157,082
Contributions as a percentage of covered-employee payroll	7.12%	7.24%	7.60%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

CITY OF WALHALLA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1. GENERAL BUDGET

The City is required by North Dakota state statutes to adopt its preliminary annual budget for the General Fund, each special revenue fund, and each debt service fund by September 10. The final budget and tax levy must be approved by October 7. The final budget must be submitted to the county auditor by October 10. The budget is presented on the modified accrual basis of accounting, which is consistent with GAAP. All budget appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the general fund. Budgetary control for funds not formally budgeted is achieved through financial management plans or as a result of established ordinances and State Statutes.

The legal level of control (the level for which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within the major funds. Any change in total to a fund or departmental appropriation within the major funds requires City Council approval.

During the year ended December 31, 2017, the City's expenditures exceeded appropriations in the general fund as follows:

	<u>Amount</u>	<u>Explanation</u>
General Government	\$30,152	Underbudgeted operating expenses
Public Safety	\$19,760	Underbudgeted operating expenses
Library	\$15,597	Unbudgeted roof repairs
Debt Service	\$37,493	Not budgeted

NOTE 2. CHANGE OF ASSUMPTIONS – DEFINED BENEFIT PLAN

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

To the City Council
City of Walhalla
Walhalla, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Walhalla as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated August XX, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Walhalla'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Walhalla's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Walhalla'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 the 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 have not been identified. We did find certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2017-001 through 2017-003 that we consider to be material weaknesses.

Compliance and Other Matters

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

City of Walhalla's Response to Findings

The City of Walhalla's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Walhalla's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

August 19, 2020

CITY OF WALHALLA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2017-001: Segregation of Duties

Criteria

Generally, a system of internal control has the proper separation of duties between the authorization.

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The above functions should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the Council.

Views of Responsible Officials and Planned Corrective Action

The City Council will continue to review financial information as a compensating control.

CITY OF WALHALLA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2017-002: Failure to Reconcile Bank Accounts

Criteria

An adequate system of controls requires all balance sheet accounts to be reconciled on a timely basis, which includes resolving discrepancies and making necessary adjustments to the general ledger.

Condition

The City failed to reconcile bank accounts on a timely basis. Additionally, discrepancies were not fully investigated nor were general ledger accounts adjusted accordingly.

Effect

Failure to reconcile cash accounts to the general ledger on a regular basis could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements. Also, failure to reconcile cash balances on a timely basis can affect management decisions as they do not have the most accurate information available.

Cause

Employee turnover

Recommendation

The bank accounts should be reconciled on a timely basis; any discrepancies should be fully investigated and the general ledger should be adjusted accordingly.

Views of Responsible Officials and Planned Corrective Actions

Management recognizes the material weakness described above and is working to reconcile bank accounts on a timely basis.

CITY OF WALHALLA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2017-003: Financial Statements

Criteria

An appropriate system of internal control requires the City to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The City's auditor prepares periodic financial information for internal use that meets the needs of the Council. However, the City currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City has elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to financial, efficiency and time constraints, it has been determined by the City's management that it is in the best interest of the City to have the financial statements and accompanying note disclosures prepared by the auditing firm at the time of the audit.