

FINANCIAL STATEMENTS
CITY OF LAKOTA
LAKOTA, NORTH DAKOTA

For the Year Ended
DECEMBER 31, 2018

Prepared By

MORTENSON & RYGH
Certified Public Accountants
PO Box 287
Park River, North Dakota 58270

CITY OF LAKOTA, NORTH DAKOTA
Table of Contents
December 31, 2018

CITY OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
BASIC FINANCIAL STATEMENTS.....	5
Statement of Net Position – Modified Cash Basis.....	6
Statement of Activities – Modified Cash Basis	7
Balance Sheet – Modified Cash Basis Governmental Funds.....	8
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position Modified Cash Basis.....	9
Statement of Receipts, Disbursements and Changes in Fund Balance - Modified Cash Basis Governmental Funds.....	10
Reconciliation of Governmental Funds Statement of Receipts, Disbursements and Changes in Fund Balance to Statement of Activities – Modified Cash Basis	11
Statement of Net Position - Modified Cash Basis Enterprise Funds	12
Statement of Receipts, Disbursements and Changes in Net Position – Modified Cash Basis Enterprise Funds	13
Statement of Cash Flows – Modified Cash Basis Proprietary Funds	14
Notes to the Financial Statements.....	15
REQUIRED SUPPLEMENTARY INFORMATION.....	37
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual - General Fund – Modified Cash Basis.....	38
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Special Street Fund – Modified Cash Basis.....	39
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Sales & Lodging Tax Funds – Modified Cash Basis	40
Schedule of Employer’s Share of Net Pension Liability ND Public Employees Retirement System	41
Schedule of Employer Contributions NDPERS ND Public Employees Retirement System	42
Schedule of Employer’s Share of Net OPEB Liability ND Public Employees Retirement System.....	43
Schedule of Employer Contributions OPEB ND Public Employees Retirement System	44
Notes to the Required Supplementary Information	45
SUPPLEMENTARY INFORMATION.....	47
Schedule of Fund Activity – Modified Cash Basis.....	48
INDEPENDENT AUDITOR’S ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49
SCHEDULE OF FINDINGS AND RESPONSES.....	51

CITY OF LAKOTA, NORTH DAKOTA
CITY OFFICIALS
December 31, 2018

January 1, 2018 to June 26th 2018

Robin Ouradnik	President of the Council
Jim Vasichек	Vice President of the Council

Anna Halvorsin	Council Member
Dennis Mattern	Council Member
Edwin Pawlikowski	Council Member
Norris Severtson	Council Member

Jeff Russo	Mayor
------------	-------

Amie Vasichек	Auditor
---------------	---------

June 26th 2018 to December 31, 2018

Jim Vasichек	President of the Council
Dennis Mattern	Vice President of the Council

Anna Halvorsin	Council Member
Tom Hess	Council Member
Rodney Mattern	Council Member
Kris Rainsberry	Council Member

Jeff Russo	Mayor
------------	-------

Amie Vasichек	Auditor
---------------	---------



Accounting For Success

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lakota, North Dakota

Report on the Financial Statements

We have audited the accompanying 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 Lakota, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

CAVALIER | PARK RIVER | LANGDON | STEPHEN
206 Dakota Street West | 1203 Park Street East | 817 3rd Street | 413 5th Street
P.O. BOX 33 | P.O. BOX 287 | FM Mall | P.O. BOX 45
Cavalier, ND 58220 | Park River, ND 58270 | Langdon, ND 58249 | Stephen, MN 56757
(701) 265-8644 | (701) 284-7616 | (701) 256-3559 | (218) 478-2880

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 Lakota, North Dakota, as of December 31, 2018, 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

Required Supplementary Information

Management has not presented 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedules of City’s share of net pension liability and contributions, and schedules of City’s share of net OPEB liability and contributions as listed in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lakota, North Dakota’s financial statements as a whole. The schedule of fund activity – modified cash basis is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of fund activity – modified cash basis is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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 14, 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.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 19, 2019

BASIC FINANCIAL STATEMENTS

CITY OF LAKOTA, NORTH DAKOTA
Statement of Net Position – Modified Cash Basis
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 827,349	\$ 1,185,981	\$ 2,013,329
Materials Inventory	-	25,747	25,747
Total Current Assets	827,349	1,211,727	2,039,076
CAPITAL ASSETS			
Capital Assets net of Accumulated Depreciation	5,924,929	4,177,921	10,102,850
Total Capital Assets	5,924,929	4,177,921	10,102,850
OTHER ASSETS			
Certificate of Deposits Reserved for Debt Service	-	525,943	525,943
Internal Balances	(12,000)	12,000	-
Total Other Assets	(12,000)	537,943	525,943
Total Assets	\$ 6,740,278	\$ 5,927,591	\$ 12,667,870
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES			
Customer Deposits	3,725	23,183	26,908
Current Maturity on Long Term Debt	174,254	108,391	282,645
Total Current Liabilities	177,979	131,574	309,553
NON CURRENT LIABILITIES			
Bonds Payable	2,759,378	2,267,444	5,026,822
Notes Payable	-	41,785	41,785
Less: Current Maturities on Long Term Debt	(174,254)	(108,391)	(282,645)
Total Non Current Liabilities	2,585,124	2,200,838	4,785,962
Total Liabilities	2,763,103	2,332,412	5,095,516
NET POSITION			
Net investment in Capital Assets	3,165,551	1,868,691	5,034,243
Restricted For:			
Capital Projects	60,113	-	60,113
Debt Service	60,613	554,032	614,646
Economic Development	296,905	-	296,905
Infrastructure	243,482	-	243,482
Equipment Replacement	-	12,308	12,308
Other	114,756	-	114,756
Unrestricted	35,753	1,160,147	1,195,900
Total Net Position	3,977,174	3,595,179	7,572,354
Total Liabilities & Net Position	\$ 6,740,278	\$ 5,927,591	\$ 12,667,870

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2018

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type	
						Activities	Type
Government Activities:							
General Government	\$ 102,085	\$ 14,633	\$ -	\$ -	\$ (87,451)	\$ -	\$ (87,451)
Public Safety	27,821	-	-	-	(27,821)	-	(27,821)
Public Service	419,062	28,629	75,810	25,653	(288,971)	-	(288,971)
Parks, Recreation & Cemetery	40,710	1,900	11,400	-	(27,410)	-	(27,410)
Interest Expense	1,231	-	-	-	(1,231)	-	(1,231)
Total Government Activities	590,908	45,162	87,210	25,653	(432,884)	-	(432,884)
Business Type Activities:							
Utility Systems	1,383,708	1,732,946	-	95,676	-	444,914	444,914
Other	96,114	58,834	-	-	-	(37,280)	(37,280)
Interest Expense	49,330	-	-	-	-	(49,330)	(49,330)
Total Business Type Activities	1,529,152	1,791,780	-	95,676	-	358,304	358,304
Total Primary Government	\$ 2,120,061	\$ 1,836,943	\$ 87,210	\$ 121,329	\$ (432,884)	\$ 358,304	\$ (74,579)
General Receipts:							
Property Taxes Levies for:							
General Purposes					\$ 132,729	\$ -	\$ 132,729
Special Assessments					86,647	27,421	114,067
Sales & Lodging Tax					91,126	-	91,126
Federal & State Aid not restricted to special purposes					49,844	-	49,844
Earnings on Investments					5,194	28,283	33,477
Other Receipts					11,651	448	12,099
Total General Receipts					\$ 377,190	\$ 56,152	\$ 433,342
Transfers To & From Other Funds					56,000	(56,000)	-
Change in Net Position					307	358,456	358,763
Net Position - January 1					3,976,867	3,236,723	6,761,457
Net Position - December 31					\$ 3,977,174	\$ 3,595,179	\$ 7,572,354

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

CITY OF LAKOTA, NORTH DAKOTA
Balance Sheet – Modified Cash Basis
Governmental Funds
December 31, 2018

	Major Funds				Total Gov'tl. Funds
	General Fund	Special Street Fund	Sales & Lodging Tax Funds	Other Gov't. Funds	
ASSETS:					
CURRENT ASSETS					
Cash & Cash Equivalents	\$ 49,021	\$ 23,141	\$ 540,388	\$ 214,799	\$ 827,349
Total Current Assets	49,021	23,141	540,388	214,799	827,349
Total Assets	\$ 49,021	\$ 23,141	\$ 540,388	\$ 214,799	\$ 827,349
LIABILITIES AND FUND BALANCE:					
CURRENT LIABILITIES					
Deposits	\$ -	\$ -	\$ -	\$ 3,725	\$ 3,725
Due To Other Funds	-	12,000	-	-	12,000
Total Current Liabilities	\$ -	\$ 12,000	\$ -	\$ 3,725	\$ 15,725
FUND BALANCES					
Restricted For:					
Capital Projects	-	10,697	-	49,416	60,113
Debt Service Funds	-	-	-	60,613	60,613
Economic Development	-	-	296,905	-	296,905
Infrastructure	-	-	243,482	-	243,482
Other	13,182	443	-	101,131	114,756
Unassigned, Reported In:					
General Fund	35,839	-	-	-	35,839
Negative Fund Balances	-	-	-	(86)	(86)
Total Fund Balance	49,021	11,141	540,388	211,074	811,624
Total Liabilities & Fund Balance	\$ 49,021	\$ 23,141	\$ 540,388	\$ 214,799	\$ 827,349

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

CITY OF LAKOTA, NORTH DAKOTA
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position
Modified Cash Basis
December 31, 2018

Total *Fund Balance* for Governmental Funds \$ 811,624

Total *net position* reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	8,169,040	
Less: Accumulated Depreciation	<u>(2,244,111)</u>	
Net Capital Assets		5,924,929

Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term are reported in the statement of net position.

Bonds Payable	<u>(2,759,378)</u>	
Total Long-Term Liabilities		(2,759,378)

Total Net Position - Governmental Activities		<u><u>\$ 3,977,174</u></u>
--	--	----------------------------

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Fund Balance -
Modified Cash Basis
Governmental Funds
December 31, 2018

	Major Funds				Total Gov'tl. Funds
	General	Special	Sales &	Other	
	Fund	Street Fund	Lodging Tax Funds	Gov't. Funds	
Receipts:					
Property Taxes	\$ 95,863	\$ 2,621	\$ 91,126	\$ 34,245	\$ 223,855
Special Assessments	-	-	-	86,647	86,647
Licenses & Permits	14,608	-	-	25	14,633
Intergovernmental Sources	49,844	59,207	-	18,750	127,801
Charges for Services	-	9,537	-	20,993	30,529
Earnings on Investments	1,567	-	3,319	307	5,194
Other Local Sources	1,261	3,499	215	41,582	46,556
Total Receipts	163,143	74,863	94,661	202,549	535,215
Disbursements:					
Current:					
General Government	98,257	-	-	3,828	102,085
Public Safety	27,821	-	-	-	27,821
Public Service	4,038	123,589	5,223	142,554	275,404
Parks, Recreation & Cemetery	-	-	-	40,258	40,258
Capital Outlay	-	2,756,010	-	-	2,756,010
Debt Service:					
Debt Principle Paid	-	-	-	32,625	32,625
Interest Expense	-	-	-	1,231	1,231
Total Expenditures	130,116	2,879,599	5,223	220,495	3,235,434
Excess Receipts over (under) Disbursements	33,027	(2,804,737)	89,438	(17,947)	(2,700,219)
Other Financing Sources (Uses)					
Debt Proceeds	-	2,759,378	-	-	2,759,378
Interfund Transfers In	37,354	56,700	-	106,175	200,229
Interfund Transfers (Out)	(62,667)	-	(635)	(80,926)	(144,228)
Net Change in Fund Balance	\$ 7,713	\$ 11,342	\$ 88,802	\$ 7,302	\$ 115,159
Fund Balance - January 1	41,308	(201)	451,586	203,772	696,465
Fund Balance - December 31	\$ 49,021	\$ 11,141	\$ 540,388	\$ 211,074	\$ 811,624

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

CITY OF LAKOTA, NORTH DAKOTA
Reconciliation of Governmental Funds Statement of Receipts, Disbursements and Changes
in Fund Balance to Statement of Activities – Modified Cash Basis
December 31, 2018

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

Net change in Fund Balance - Governmental Funds \$ 115,159

Governmental funds report capital outlays as expenses. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital capital outlays exceeded depreciation in the current period.

Capital Asset Additions	2,751,789
Capital Asset Disposals	(3,108)
Current Year Depreciation Expense	(136,780)

Governmental funds report debt principal payments as an expense. However in the statement of activities debt principal is not expensed nor is the receipt of borrowed funds treated as income.

Debt principal paid during the year	32,625
Debt proceeds received during the year	(2,759,378)

Change in Net Position of Governmental Activities \$ 308

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Net Position - Modified Cash Basis
Enterprise Funds
December 31, 2018

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
ASSETS:					
CURRENT ASSETS					
Cash & Cash Equivalents	\$ 598,025	\$ 491,387	\$ 73,128	\$ 23,440	\$ 1,185,981
Materials Inventory	18,536	7,211	-	-	25,747
Total Current Assets	616,561	498,598	73,128	23,440	1,211,727
NONCURRENT ASSETS					
Capital Assets net of					
Accumulated Depreciation	625,893	2,215,725	1,113,174	223,128	4,177,921
Certificates of Deposit reserved for debt service	180,740	345,203	-	-	525,943
Due from Other Funds	24,000	-	-	-	24,000
Total Noncurrent Assets	830,633	2,560,928	1,113,174	223,128	4,727,864
Total Assets	\$ 1,447,194	\$ 3,059,527	\$ 1,186,302	\$ 246,569	\$ 5,939,591
LIABILITIES AND NET POSITION:					
CURRENT LIABILITIES					
Due to Other Funds	\$ -	\$ 6,000	\$ 6,000	\$ -	\$ 12,000
Customer Deposits	23,183	-	-	-	23,183
Current Portion of Long Term Debt	-	79,356	17,000	12,035	108,391
Total Current Liabilities	23,183	85,356	23,000	12,035	143,574
NON CURRENT LIABILITIES					
Bonds Payable	-	2,165,444	102,000	-	2,267,444
Note Payable	-	29,750	-	12,035	41,785
Less Current Portion	-	(79,356)	(17,000)	(12,035)	(108,391)
Total Non Current Liabilities	-	2,115,838	85,000	-	2,200,838
Total Liabilities	23,183	2,201,194	108,000	12,035	2,344,412
NET POSITION					
Net Investment in Capital Assets	625,893	20,531	1,011,174	211,093	1,868,691
Restricted for Debt Service	180,740	345,203	28,089	-	554,032
Restricted for Equipment Replacement	-	12,308	-	-	12,308
Unrestricted	617,378	480,290	39,039	23,440	1,160,147
Total Net Position	1,424,011	858,332	1,078,302	234,534	3,595,179
Total Liabilities & Net Position	\$ 1,447,194	\$ 3,059,527	\$ 1,186,302	\$ 246,569	\$ 5,939,591

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Net Position – Modified Cash Basis
Enterprise Funds
December 31, 2018

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Receipts:					
Utility Sales	\$ 1,272,343	\$ 261,137	\$ 97,437	\$ 100,575	\$ 1,731,492
Other Charges for Services	450	1,004	-	58,834	60,288
Other Sources	98	150	200	-	448
Total Receipts	1,272,892	262,291	97,637	159,409	1,792,229
Operating Disbursements:					
Salaries & Benefits	117,541	45,773	17,342	35,129	215,785
Operational Disbursements	776,143	56,437	43,055	151,279	1,026,913
Depreciation	76,331	87,299	63,691	9,803	237,124
Total Operating Disbursements	970,015	189,509	124,088	196,211	1,479,822
Net Operating Income	\$ 302,877	\$ 72,782	\$ (26,450)	\$ (36,802)	\$ 312,407
Non-Operating Receipts (Disbursements)					
Earnings on Investments	26,375	1,843	64	1	28,283
Special Assessments	-	-	27,421	-	27,421
Capital Grants	-	95,676	-	-	95,676
Interest Expense	-	(44,711)	(3,528)	(1,091)	(49,330)
Income (Loss) Before Transfers	329,252	125,591	(2,494)	(37,892)	414,457
Interfund Transfers In	6,213	2,408	65,602	47,477	121,699
Interfund Transfers (Out)	(177,699)	-	-	-	(177,699)
Change in Net Position	\$ 157,765	\$ 127,998	\$ 63,108	\$ 9,584	\$ 358,456
Net Position - January 1	1,266,245	730,334	1,015,194	224,949	3,236,723
Net Position - December 31	\$ 1,424,011	\$ 858,332	\$ 1,078,302	\$ 234,534	\$ 3,595,179

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
December 31, 2018

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$ 1,272,793	\$ 262,141	\$ 97,437	\$ 159,409	\$ 1,791,780
Payments to Employees	(117,541)	(45,773)	(17,342)	(35,129)	(215,785)
Payments to Suppliers	(774,243)	(56,437)	(43,055)	(151,279)	(1,025,013)
Other Receipts	98	150	200	-	448
Total Cash Flows from Operating Activities	381,108	160,081	37,241	(26,999)	551,431
Cash Flows from Noncapital Financing Activities					
Transfers In	6,213	2,408	65,602	47,477	121,699
Special Assessments	-	-	27,421	-	27,421
Transfers (Out)	(177,699)	-	-	-	(177,699)
(Inc.)/Decrease in Internal Balances	79,355	6,000	(97,192)	-	(11,837)
Total Cash Flows from Noncapital Financing Activities	(92,131)	8,408	(4,170)	47,477	(40,417)
Cash Flows from Capital and Related Financing Activities					
Bond Proceeds Received	-	594,990	-	-	594,990
Grant Proceeds Received	-	95,676	-	-	95,676
Purchases of Capital Assets	-	(422,101)	(0)	(0)	(422,101)
Principal Payments on Bonds	-	(70,795)	(17,000)	-	(87,795)
Principal Payments on Notes Payable	-	(2,774)	-	(18,909)	(21,683)
Interest on Debt	-	(44,711)	(3,528)	(1,091)	(49,330)
Total Cash Flows from Capital and Related Financing Activities	-	150,284	(20,528)	(20,000)	109,756
Cash Flows From Investing Activities					
Investment in Certificate of Deposit	(11,470)	(116,703)	-	-	(128,173)
Earnings on Investments	26,375	1,843	64	1	28,283
Total Cash Flows From Investing Activities	14,905	(114,860)	64	1	(99,890)
Net Increase (Decrease) in Cash & Cash Equivalents	303,882	203,913	12,607	478	520,880
Cash and Cash Equivalents - January 1	294,144	287,474	60,521	22,962	665,101
Cash and Cash Equivalents - December 31	\$ 598,025	\$ 491,387	\$ 73,128	\$ 23,440	\$ 1,185,981
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	302,877	72,782	(26,450)	(36,802)	312,407
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	76,331	87,299	63,691	9,803	237,124
Inc./Decrease in Deposits Payable	1,900	-	-	-	1,900
Total Adjustments	\$ 78,231	\$ 87,299	\$ 63,691	\$ 9,803	\$ 239,024
Net Cash Provided/(Used) by Operating Activities	\$ 381,108	\$ 160,081	\$ 37,241	\$ (26,999)	\$ 551,431

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Financial Statements
December 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Lakota, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental 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 of Lakota. For financial reporting purposes, the City of Lakota's primary government includes all funds, account groups, elected officials, departments, boards, commissions, and authorities that make up the city's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14 "The Financial Reporting Entity". The criteria includes appointing a voting majority of an organization's governing board 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 of Lakota.

Based upon the application of these criteria, the following is a brief review of each potential unit addressed defining the government's reporting entity:

BLENDDED COMPONENT UNITS – None

DISCRETELY PRESENTED COMPONENT UNITS - None

EXCLUDED ORGANIZATIONS – The following governmental entities are not included in these financial statements since they do not meet the criteria contained in Statement 14:

Lakota Public School District - With different boundaries than the City, the school district does not entirely or exclusively benefit City residents. The City has no authority to appoint board members and has no fiscal responsibilities. The school district can levy taxes and issue debt in its own name.

Lakota Park District – The Park District elects its own governing body, levies its own taxes, approves its own budget and authorizes debt. The City has no authority to govern or fiscal responsibility for the Park Board.

The City's basic financial statements include all of the City operations. The basic financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from City of Lakota.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary

government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct Expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to entities or individuals who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues, as are internally dedicated resources.

The fund financial statements provide information about the City's funds. Separate financial statements for each fund category, governmental, proprietary, and fiduciary funds, are presented. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The city reports the following major governmental funds:

Governmental Funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Street Fund – This is the City's primary street and highway maintenance fund but it also funds tree projects, weed control and mosquito control. The major source of revenue is from the State Treasury Highway Tax.

Sales & Lodging Tax Funds - This fund accounts for a 1% sales tax imposed on purchases in the City, and a lodging tax imposed upon gross receipts of every hotel located in the City. Revenues are to be spent on infrastructure and economic development.

Proprietary funds:

Enterprise Funds – This account group provides basic utility service to the City residents. The fund group operates utility systems and borrows money for capital improvements through revenue bonds. Enterprise funds use the modified cash basis of accounting as defined at Note 1C above.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide and proprietary financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements, and proprietary financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Measurement Focus

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

- a) Governmental funds utilize a “current financial resources”. 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) Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recover), financial position, and cash flows. Only cash and cash equivalents, capital assets, long term debt and inter-fund balances are generally included on their balance sheets. Short term liabilities for payroll withholding may be recognized. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide statement of net position and statement of activities and the fund financial statements, governmental, and business-type 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 in the government-wide statements and proprietary fund statements, with a provision for depreciation in the government-wide statements, and proprietary fund statements. This basis is a comprehensive 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing or delivering goods in connection with the fund’s normal ongoing operations. The principal operating receipts of the City’s proprietary funds are charges to customers for goods and services. Operating disbursements include the cost of sales and services, administrative expenses and depreciation on capital assets. All other receipts or disbursements are recorded as non-operating

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less. The investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

For purposes of the statement of cash flow, the enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical 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. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20-40
Infrastructure	40
Distribution systems	40
Furniture & equipment	10
Vehicles	5
Computer & electronic equipment	5

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

F. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

G. Fund Balances and Net Position

Government-wide Financial Statements

Prior to GASB 63, amounts were reported as equity on the statement of net assets in three primary categories, invested in capital assets net of related debt, restricted and unrestricted. Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in three primary categories:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Restrictions of net position shown in the statement of net positions are due to constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net positions – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statement

Beginning with fiscal year 2011, the City implemented GASB Statement 54, Fund Balance Reporting in Governmental Fund Types Definitions. The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the City is bound to honor them. The City first determines and reports non-spendable balances, then restricted, then committed, and so forth. he City’s governmental fund

balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

Non-spendable fund balance – This category includes fund balance amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Restricted fund balance – This category includes net fund resources that are subject to external constraints that have been placed on the use of resources either (a) imposed by creditors, grantors, contributors, or laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This category includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority, the City Council. The commitment can only be removed through the same action. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This category includes Governmental Fund balance that the town indents to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the City’s administration comprised of the City administrative council.

Unassigned fund balance – This category included the residual balances in the governmental fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purpose within the General Fund.

H. Interfund Transactions

Quasi-external transactions are accounted for as receipts or disbursements. Transactions that constitute reimbursements to a fund for receipts/disbursements initially made from it that are properly applicable to another fund, are recorded as disbursements in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or none routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

I. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The City’s governing board did not amend the budget during 2018.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with North Dakota statutes, the City maintains deposits in financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the City to invest in:

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

The City's deposits at balance sheet date were entirely covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the District's agent in the District's name (Category II assets).

Custodial Credit Risk – This is the risk that deposits would be lost in the event of a bank failure. Deposits that exceed federal agency insurance limits are collateralized as stated above in accordance with state law. The City requires depository banks to furnish the City with periodic assurance of collateral coverage of district deposits.

B. Investments

Concentration of credit risk – The risk of loss due to the magnitude of investments in a single issuer. The City only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

Interest rate risk – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City only invests in Certificates of Deposit which are always purchased and redeemable at face value.

At year ended December 31, 2018, the City's carrying amount of deposits and CDs totaled \$2,540,556 and the bank balances totaled \$2,583,791. Of the bank balances, \$500,034 was covered by Federal Depository Insurance. The remaining bank balances totaling \$2,083,757 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed to the City by private individuals and organizations for goods or services provided by the utility funds.

NOTE 5 INVENTORIES

The proprietary funds maintain an inventory of materials and supplies used for operation of the utility. Inventory is valued at cost. No perpetual records are kept but a periodic count is taken. There is very little variation in inventory from year to year because the same quantities of the same items are generally kept on hand and replaced as used.

NOTE 6 CAPITAL ASSETS

The following are summaries of changes in capital assets, governmental activities, for the year ended December 31, 2018:

Governmental Activities	Balance 1/1/2018	Additions	(Dipsosals)	Balance 12/31/2018
Capital assets not being depreciated				
Construction in Progress	\$ 3,108	\$ 2,751,789	\$ (3,108)	\$ 2,751,789
Total capital assets not being depreciated	3,108	2,751,789	(3,108)	2,751,789
Capital assets being depreciated				
Building & Improvements	\$ 1,740,489	\$ -	\$ -	\$ 1,740,489
Infrastructure	3,274,915	-	-	3,274,915
Equipment	401,847	-	-	401,847
Total capital assets being depreciated	\$ 5,417,251	\$ -	\$ -	\$ 5,417,251
Less: accumulated depreciation				
Buildings & Improvements	(500,456)	(46,124)	-	(546,580)
Infrastructure	(1,293,911)	(75,930)	-	(1,369,841)
Equipment	(312,964)	(14,726)	-	(327,690)
Total accumulated depreciation	\$ (2,107,331)	\$ (136,780)	\$ -	\$ (2,244,111)
Net capital assets being depreciated, Net	3,309,920	(136,780)	-	3,173,140
Governmental activities capital assets, Net	\$ 3,313,028	\$ 2,615,009	\$ (3,108)	\$ 5,924,929

Depreciation expense was charged to the functions/programs of the city as follows:

Governmental Activities	
Public Service	\$ 136,328
Parks, Recreation, Cemetery	452
Total Depreciation Expense -	
Governmental Activities	<u>\$ 136,780</u>

The following are summaries of changes in capital assets, business-type activities, for the year ended December 31, 2018:

Business-Type Activities	Balance 1/1/2018	Additions	(Disposals)	Balance 12/31/2018
Non-depreciated assets				
Land	\$ 17,045	\$ -	\$ -	\$ 17,045
Construction in Progress	458,874	350,753	(437,772)	371,856
Total non-depreciated assets	<u>\$ 475,919</u>	<u>\$ 350,753</u>	<u>\$ (437,772)</u>	<u>\$ 388,901</u>
Capital assets being depreciated				
Electric Utility	\$ 2,205,114	\$ -	\$ -	\$ 2,205,114
Water Utility	3,554,800	509,120	-	4,063,919
Sewer Utility	2,151,921	-	-	2,151,921
Golf Course	330,719	-	-	330,719
Total capital assets being depreciated	<u>\$ 8,242,554</u>	<u>\$ 509,120</u>	<u>\$ -</u>	<u>\$ 8,751,673</u>
Less: accumulated depreciation				
Electric Utility	\$ (1,504,889)	\$ (76,331)	\$ -	\$ (1,581,220)
Water Utility	(2,147,796)	(87,299)	-	(2,235,095)
Sewer Utility	(975,056)	(63,691)	-	(1,038,747)
Golf Course	(97,787)	(9,803)	-	(107,590)
Total accumulated depreciation	<u>\$ (4,725,528)</u>	<u>\$ (237,124)</u>	<u>\$ -</u>	<u>\$ (4,962,652)</u>
Total capital assets being depreciated, Net	<u>3,517,026</u>	<u>271,996</u>	<u>-</u>	<u>3,789,021</u>
Total Business-Type activities, Net	<u><u>\$ 3,992,945</u></u>	<u><u>\$ 622,749</u></u>	<u><u>\$ (437,772)</u></u>	<u><u>\$ 4,177,921</u></u>

NOTE 7 DUE TO/FROM OTHER FUNDS

At year-end December 31, 2017, negative overall cash balances existed in the sewer fund totaling \$103,192. The cash deficit for reporting purposes in the balance sheet was covered by the electric fund. A due from other funds was recorded in the electric fund and a corresponding due to other funds was reported in the sewer fund. These borrowings were paid back during the year ended December 31, 2018.

At year ended December 31, 2017 and interfund receivable of \$24,000 was reported in the electric fund. The amount is the annual building lease due from the street fund, water fund, and sewer fund. The interfund receivable is expected to be paid during 2019.

The following is a summary of interfund balances:

Governmental Activities	January 1, 2018		December 31, 2018	
	Due (To) From Other Funds	Increase	Decrease	Due (To) From Other Funds
General	\$ 124	\$ -	\$ (124)	\$ -
Highway Fund	(201)	(12,000)	201	(12,000)
Community Building Fund	(7)	-	7	-
Library Fund	(67)	-	67	-
Swimming Pool Fund	(12)	-	12	-
Total Governmental Activities	\$ (163)	\$ (12,000)	\$ 163	\$ (12,000)
Business-Type Activities				
Electric Fund	\$ 103,355	\$ 24,000	\$ (103,355)	\$ 24,000
Water	-	(6,000)	-	(6,000)
Sewer	(103,192)	(6,000)	103,192	(6,000)
Golf Fund	-	-	-	-
Total Business Type Activities	\$ 163	\$ 12,000	\$ (163)	\$ 12,000

NOTE 8 PENSION PLAN

Summary of Significant Accounting Policies

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.

General Information about the 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 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 nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc

post-retirement benefit increases. Member 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 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 salaries and wages. 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 24 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

As stated in Note 1 above, the City uses a modified cash basis of accounting, so the following NDPERS pension liabilities are not presented in the basic financial statements. If the City used the accrual or modified accrual basis of accounting, the following pension liabilities would be presented.

At December 31, 2018, the Employer reported a liability of \$382,378 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2018, the Employer's proportion was 0.022658 percent, which was an increase of 0.002507 percent from its proportion measured as of July 1, 2017.

For the year December 31, 2018, the Employer's accrual basis pension expense was \$77,131. At December 31, 2018, the Employer 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 experiences	\$ 1,012	\$ 13,009
Changes of assumptions	138,031	5,458
Net difference between projected and actual earnings on pension plan investments	-	1,860
Changes in proportion and differences between Employer contributions and proportionate share of contributions	52,369	17,506
*Employer contributions subsequent to the measurement date of July 1, 2018	9,947	-
Total	<u>\$ 201,359</u>	<u>\$ 37,833</u>

*\$9,947 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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 December 31:	
2019	\$ 53,407
2020	48,026
2021	28,958
2022	20,667
2023	2,521
Thereafter	-
Total	<u>\$ 153,579</u>

Actuarial Assumption

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	<u>Service at Beginning of Year</u>	<u>Increase Rate</u>
	0	15.00%
	1	10.00%
	2	8.00%
	<u>Age*</u>	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
50+	5.00%	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

*Aged-based salary increase rates apply for employees with three or more years of service.

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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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 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	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
Global Real Estate	19%	5.11%
Cash Equivalents	0%	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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of the net pension liability	519,581	382,378	267,887

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

As of December 31, 2018, the city had no accrued liability for wages attributable to the fiscal year ended December 31, 2018.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

Other Post Employment Benefits (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the Employer reported a liability of \$16,754 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.021273 percent, which was an increase of 0.002258 percent from its

proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Employer's accrual basis OPEB expense was \$2,240. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 503	\$ 346
Changes of assumptions	1,375	-
Net difference between projected and actual earnings on pension plan investments	-	360
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,066	-
*Employer contributions subsequent to the measurement date of July 1, 2018	1,592	-
Total	\$ 4,536	\$ 706

\$1,592 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as:

Year ended December 31:	
2019	\$ 313
2020	313
2021	313
2022	472
2023	443
Thereafter	384
Total	\$ 2,238

Actuarial assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, 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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Lg Cap Domestic Equities	37%	5.80%
Sm Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.46%

Discount rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension liability	21,198	16,754	12,944

NOTE 10 COMPENSATED ABSENCES

The City does not account for compensated absences. The amount of liability cannot be readily ascertained.

NOTE 11 LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in long-term liabilities of the city:

Governmental Activities	Balance 01/01/18	Increases	Decreases	Balance 12/31/18	Due Within One Year
Special Assessments	\$ 15,000	\$ 2,759,378	\$ (15,000)	\$ 2,759,378	\$ 174,254
Other Debt	17,625	-	(17,625)	-	-
Total Governmental Activities	\$ 32,625	\$ 2,759,378	\$ (32,625)	\$ 2,759,378	\$ 174,254
Business-Type Activities					
Revenue Bonds	\$ 1,760,249	\$ 594,990	\$ (87,795)	\$ 2,267,444	\$ 93,498
Other Debt	63,468	-	(21,683)	41,785	14,891
Total Business-Type Activities	\$ 1,823,717	\$ 594,990	\$ (109,478)	\$ 2,309,229	\$ 108,391

SPECIAL ASSESSMENT BONDS (governmental activities) - The City of Lakota is obligated to the following special assessment bonds:

Refunding Improvement Bonds of 1998

Original issue of \$300,000. Interest is payable semi-annually at 2.5% with principal due annually for 19 years maturing 9/01/17

\$0

Definitive Improvement Warrant, Series 2018

Authorized issue amount of \$4,160,000, of which \$2,759,378 has been advanced. The warrants are due to the Bank of North Dakota over twenty years to maturity on June 1, 2038 at an interest rate of 2.0%. Principal and interest payments of \$254,218 are due annually.

2,759,378

Total special assessment bonds

\$2,759,378

REVENUE BONDS (business-type activities) - The city issues bonds where the city pledges income derived from the operations to pay debt service. The proceeds of the bonds are used to finance various capital improvement projects. The Refunding Revenue Bonds are special obligations of the city payable solely from, and secured as to payment of principal and interest by a pledge of, the receipts from revenues of the water, sewer and garbage utility systems.

The City of Lakota is obligated to the following revenue bond issues:

Wastewater Treatment Assessment Warrant, Series 2006

Authorized issue amount is \$414,948. The warrants are due to the North Dakota Public Finance Authority payable over twenty years at an interest rate of 2.5%. Interest is due semi-annually and principal due annually.

\$ 102,000

Water Revenue Bonds of 98, 98-2

Original issue amount is \$527,600. Interest is payable at 3% per annum, payable semi-annually with principal due annually over a 40 year amortization.

341,161

Water Revenue Refunding Bonds, Series 2012

Original issue amount is \$1,195,000, due in annual installments ranging from \$45,000 to \$55,000. Interest is payable semiannually starting at % 1 and increasing to 4.25% over the 25 year amortization period.

895,000

Water Treatment Plant Revenue Bonds, Series 2017

Original issue amount is \$343,000, due in 40 annual installments of \$12,266. Interest is payable annually at 1.875%.

334,293

Water Revenue Bond of 2018

Original issue amount is \$601,000. Interest rate is 3%. Principal and interest payments are due in annual installments of \$26,535 over a 40 year period, scheduled to mature in 2058.

601,000

Total Enterprise Revenue Bonds

\$ 2,273,454

Governmental and business-type activities debt service requirements to maturity at December 31, 2018, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Special Assessment		Revenue Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 174,254	\$ 79,964	\$ 93,498	\$ 68,090
2020	174,503	79,715	95,252	66,052
2021	177,993	76,225	96,015	63,967
2022	181,553	72,665	96,788	61,612
2023	185,184	69,034	102,572	59,233
2024 - 2028	982,979	288,111	418,892	255,158
2029 - 2033	1,085,288	185,801	409,694	188,476
2034 - 2038	1,198,246	72,844	379,108	113,418
2039 - 2043	-	-	121,106	72,899
2044 - 2048	-	-	138,162	55,843
2049 - 2053	-	-	157,755	36,250
2054 - 2058	-	-	158,602	13,729
Total	<u>\$ 4,160,000</u>	<u>\$ 924,359</u>	<u>\$ 2,267,444</u>	<u>\$ 1,054,727</u>

NOTE 11 OTHER DEBT PAYABLE

The City of Lakota is obligated to several other debt obligations as itemized below:

Governmental Activities:

United States Department of Agriculture – In March 2017, the City Library financed \$48,600 for a library expansion construction project. The balance is payable in monthly installments of \$199 for both principal and interest over the next 30 years. The interest rate on the loan is 2.75%.

\$ 0

Total Other Debt

\$ 0

Business Type Activities:

State Bank of Lakota – Capitalized lease for construction of the Lakota golf course. January 1, 2001 the City entered into a lease purchase agreement with the State Bank of Lakota to finance construction of a municipal golf course. The amount financed was \$250,000 payable over twenty five years. The base interest rate was 5.5%. The rate is variable over the twenty five years with a minimum rate of 5% and a maximum rate of 10%. Annual lease payments are a minimum of \$25,000 at 5.5% rate and adjusted upwards by any increase in interest rate. The current rate on the contract is 5.5%.

\$ 12,035

Tri-County Water District – May 6, 2008 the City entered into an agreement with the Tri-County Water District for a temporary sale and purchase of water. The amount financed was \$54,125 payable over 19 years. The base interest rate is 3.00% and is fixed over the 19 year amortization period. Annual lease payments are fixed at \$3,750.

29,750

Total Other Debt

\$ 41,785

Future principal and interest requirements on other debt are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
	Other Debt		Other Debt	
December 31	Principal	Interest	Principal	Interest
2019	\$ -	\$ -	\$ 14,891	\$ 1,483
2020	-	-	2,943	807
2021	-	-	3,032	718
2022	-	-	3,122	63
2023	-	-	3,216	534
2024 - 2028	-	-	14,581	1,141
Total	\$ -	\$ -	\$ 41,785	\$ 4,746

NOTE 12 RISK MANAGEMENT

The City of Lakota is exposed to various risks of loss related 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 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, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence. The City of Lakota also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Lakota pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding fund currently provides the City of Lakota with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Lakota also participates in the North Dakota Worker's Compensation Bureau. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 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 14 TRANSFERS

The operating transfers were as follows:

Fund	In	Out
General	\$ 37,354	\$ (62,667)
Highway Fund	56,700	-
Community Building Fund	29,384	-
Library Fund	19,714	-
Sales Tax Fund	-	(635)
Swimming Pool Fund	19,718	-
Airport Authority Fund	21,433	-
City Share of Specials	-	(80,926)
Electric Fund	6,213	(177,699)
Water	28,998	(26,590)
Sewer	65,602	-
Debt Service Fund	15,926	-
Golf Course Fund	47,477	-
	\$ 348,518	\$ (348,518)

Transfers were made for cash management, fixed asset management needs, and debt service requirements.

NOTE 15 OPERATING LEASE COMMITMENTS

The City leased a lawn mower during July 2017. The lease terms are three annual payments of \$1,529 and a purchase price option of \$3,750 at the lease term end date. Future minimum lease payments as of December 31, 2018, are as follows:

Year Ending December 31	Street Fund
2019	\$ 1,529
2020	1,529
2021	-
<u>Total</u>	<u>\$ 3,057</u>

NOTE 16 CONSTRUCTION COMMITMENTS

The City began a water tower improvement project during 2018. As of December 31, 2018, the City had the following commitments for construction contracts:

Total Projected Cost	\$1,241,000
Incurred to Date	<u>(371,886)</u>
Committed Cost	<u>\$ 869,144</u>
Percent Complete	30.0%

The contract will be paid in 2019 with proceeds remaining from bond issues and grant proceeds.

The City also began a street improvement project during 2018. As of December 31, 2018, the City had the following commitments for construction contracts:

Total Projected Cost	\$4,160,000
Incurred to Date	<u>(2,751,789)</u>
Committed Cost	<u>\$1,408,211</u>
Percent Complete	66.2%

The contract will be paid in 2019 with proceeds remaining from bond issues.

NOTE 17 NEW ACCOUNTING GUIDANCE – GASB 75

On January 1, 2018 the City adopted GASB No. 75, *Accounting and Financial Reporting for Post Employment Benefits Other than Pensions*. The adoption of these standards requires governments to calculate and report the costs and obligations associated with postretirement benefits other than pensions, and to recognize the long-term obligation as a liability for the first time. Retiree Health Insurance Credit Fund (RHIC) is considered an Other Postemployment Benefit (OPEB) that falls under the scope of GASB Statement No. 75.

Because the City uses the modified cash basis of accounting, no prior period adjustment has been made to the statement of activities.

NOTE 18 SUBSEQUENT EVENTS

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through August 19, 2019

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Fund Balance
Budget & Actual - General Fund – Modified Cash Basis
December 31, 2018

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 95,568	\$ 95,863	\$ 295
Licenses & Permits	12,960	14,608	1,648
Intergovernmental Sources	50,552	49,844	(708)
Earnings on Investments	350	1,567	1,217
Sale of Property	2,000	-	(2,000)
Other Sources	2,000	1,261	(739)
Total Receipts	163,430	163,143	(287)
Disbursements:			
General Government	93,158	98,257	(5,099)
Public Safety	27,820	27,821	(1)
Public Service	7,438	4,038	3,400
Total Disbursements	128,416	130,116	(1,700)
Excess Receipts over (under) Disbursements	35,014	33,027	(1,987)
Interfund Transfers In	154,448	37,354	(117,094)
Interfund Transfers (Out)	(189,462)	(62,667)	126,795
Net change in Fund Balances	\$ -	\$ 7,713	\$ 7,713
Fund Balance - January 1	41,308	41,308	
Fund Balance - December 31	\$ 41,308	\$ 49,021	

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Fund Balance
Budget & Actual – Special Street Fund – Modified Cash Basis
December 31, 2018

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 6,493	\$ 2,621	\$ (3,872)
License and Permits	100	-	(100)
Intergovernmental Sources	56,000	59,207	3,207
Other Sources	9,500	3,499	(6,001)
Total Receipts	72,093	65,326	(6,767)
Disbursements:			
Public Service	117,433	123,589	(6,156)
Capital Outlay	4,607,000	2,756,010	1,850,990
Total Disbursements	4,724,433	2,879,599	1,844,834
Excess Receipts over (under) Disbursements	(4,652,340)	(2,814,273)	1,838,067
Bond Proceeds	4,600,000	2,759,378	(1,840,622)
Interfund Transfers In	52,340	56,700	4,360
Net change in Fund Balances	\$ -	\$ 1,805	\$ 1,805
Fund Balance - January 1	(201)	(201)	
Fund Balance - December 31	\$ (201)	\$ 1,604	

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Fund Balance
Budget & Actual – Sales & Lodging Tax Funds – Modified Cash Basis
December 31, 2018

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 44,000	\$ 91,126	\$ 47,126
Earnings on Investments	1,950	3,319	1,369
Miscellaneous	150	215	65
	<hr/>		
Total Revenues	46,100	94,661	48,561
Disbursements:			
Economic Development	46,100	5,223	40,877
	<hr/>		
Total Disbursements	46,100	5,223	40,877
Excess Receipts over (under) Disbursements	-	89,438	89,438
	<hr/>		
Interfund Transfers (Out)	-	(635)	(635)
	<hr/>		
Net change in Fund Balances	\$ -	\$ 88,802	\$ 88,802
Fund Balance - January 1	451,586	451,586	
	<hr/>		
Fund Balance - December 31	<u>\$ 451,586</u>	<u>\$ 540,388</u>	

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

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

Year Ended December 31	Employer's Proportion Of the Net Pension Liability (Asset)	Employer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2014	0.011978%	76,027	100,897	75.4%	77.70%
2015	0.023667%	160,932	210,845	76.3%	77.15%
2016	0.018785%	183,078	189,309	96.7%	70.46%
2017	0.020151%	323,893	205,708	157.5%	61.98%
2018	0.022658%	382,378	232,770	164.3%	62.80%

*Complete data for this schedule is not available prior to 2014.

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

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

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Employer Contributions NDPERS
ND Public Employees Retirement System
Last 10 Fiscal Years*

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2014	7,184	7,184	0	100,897	7.12%
2015	16,015	15,641	374	210,845	7.42%
2016	13,706	13,708	(2)	189,309	7.24%
2017	14,916	15,823	(907)	205,708	7.69%
2018	17,144	13,245	3,899	232,770	5.69%

*Complete data for this schedule is not available prior to 2014.

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

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

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Employer's Share of Net OPEB Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

Year Ended December 31	Employer's Proportion Of the Net Pension Liability (Asset)	Employer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2017	0.019015%	15,041	205,708	7.3%	59.78%
2018	0.021273%	16,754	232,770	7.2%	61.89%

*Complete data for this schedule is not available prior to 2017.

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

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

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Employer Contributions OPEB
ND Public Employees Retirement System
 Last 10 Fiscal Years*

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	2,391	2,533	(142)	205,708	1.23%
2018	2,730	2,121	609	232,770	0.91%

*Complete data for this schedule is not available prior to 2017.

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Required Supplementary Information
December 31, 2018

NOTE 1 BUDGETS

The City follows these procedures in establishing the budgetary data reflected in the financial statement:

- a) The final budget must be adopted on or before October 7, and must be filed with the County Auditor by October 10. The budget may be amended during the year, except no amendment changing the taxes levied can be made after October 10.

- b) The City Council approves total budget appropriations only. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc.)

- c) The budget amounts shown in the financial statements are the final authorized amounts.

The city does not prepare budgets for special assessment debt service funds. Assessments are certified to the county for collection. The city also has some non-major special revenue funds that do not have a tax levy and very minimal expenditures that are not budgeted. Management therefore does not prepare budget to actual comparisons for either the debt service or non-major special revenue fund groups.

The city auditor prepares a preliminary budget for the general and some of the special revenue funds on the cash basis of accounting. Because not all special revenue funds are budgeted, a budget to actual comparison of non-major special revenue funds is not done. The preliminary budget includes proposed expenditures and the means of financing them. The governing body reviews the preliminary budget, may make revisions and approve it on or before September 10. On or before October 7, a public hearing is held for taxpayers to discuss any budgeted items.

The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget is sent to the county auditor by October 10. No expenditure shall be made or liability incurred in excess of the appropriation, except for transfers as authorized by North Dakota Century Code Section 40-40-21. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10. At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance, except for a special appropriation that does not lapse until the work is completed.

Budgets are prepared on the cash basis of accounting which does not differ significantly from the modified cash method used for financial reporting.

The following fund's expenditures exceeded budgeted amounts for the year ended December 31, 2018.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	128,416	130,116	(1,700)
Community Center	42,744	46,748	(4,004)
Library	21,938	73,822	(51,884)
Cemetery	3,615	20,382	(16,767)

No corrective action by the governing board is planned.

NOTE 2 PENSION PLAN

Changes of Benefit Terms

There were no changes to benefits for the year ended July 1, 2018, the most recent measurement date.

Changes of Assumptions

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 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.

NOTE 3 OTHER POST EMPLOYMENT BENEFITS

Changes of benefit terms.

There were no changes to benefits for the year ended July 1, 2018, the most recent measurement date.

Changes of assumptions.

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 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.

SUPPLEMENTARY INFORMATION

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Fund Activity – Modified Cash Basis
December 31, 2018

	Balance 01/01/18	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12/31/18
Governmental Funds							
Major Funds							
General	\$ 41,308	\$ 163,143	\$ 37,354	\$ -	\$ (62,667)	\$ (130,116)	\$ 49,021
Special Street	(201)	74,863	56,700	2,759,378	-	(2,879,599)	11,141
Sales & Lodging Tax	451,586	94,661	-	-	(635)	(5,223)	540,388
Total Major Funds	\$ 492,692	\$ 332,667	\$ 94,054	\$ 2,759,378	\$ (63,303)	\$ (3,014,939)	\$ 600,549
Non-major Funds							
Community Center	\$ 3,396	\$ 13,957	\$ 29,384	\$ -	\$ -	\$ (46,748)	\$ (11)
Library Fund	19,404	40,363	19,714	-	-	(73,925)	5,556
Swimming Pool Fund	(142)	225	19,718	-	-	(19,876)	(75)
Cemetery Fund	47,037	20,912	-	-	-	(20,382)	47,568
Airport Authority Fund	(12)	18,391	21,433	-	-	(39,811)	-
Building Fund	49,416	-	-	-	-	-	49,416
Emergency Fund	36,396	1,990	-	-	-	-	38,386
Advertising Fund	1,816	-	-	-	-	-	1,816
Economic Development Fund	2,797	5,008	-	-	-	-	7,805
City Share of Specials	43,663	101,703	-	-	(80,926)	(3,828)	60,613
Debt Service Fund	-	-	15,926	-	-	(15,926)	-
Total Non-major Funds	\$ 203,772	\$ 202,549	\$ 106,175	\$ -	\$ (80,926)	\$ (220,495)	\$ 211,074
Total Governmental Funds	\$ 696,465	\$ 535,215	\$ 200,229	\$ 2,759,378	\$ (144,228)	\$ (3,235,434)	\$ 811,624
Enterprise Funds							
Major Funds							
Electric Fund	\$ 1,266,245	\$ 1,272,892	\$ 6,213	\$ 26,375	\$ (177,699)	\$ (970,015)	\$ 1,424,011
Water Fund	730,334	357,967	2,408	(42,868)	-	(189,509)	858,332
Sewer Fund	1,015,194	97,637	65,602	23,957	-	(124,088)	1,078,302
Total Major Funds	\$ 3,011,773	\$ 1,728,496	\$ 74,222	\$ 7,464	\$ (177,699)	\$ (1,283,611)	\$ 3,360,645
Non-major Funds							
Garbage Fund	\$ 22,923	\$ 100,575	\$ -	\$ -	\$ -	\$ (100,097)	\$ 23,400
Golf Fund	202,027	58,834	47,477	(1,090)	-	(96,114)	211,133
Total Non-major Funds	\$ 224,949	\$ 159,409	\$ 47,477	\$ (1,090)	\$ -	\$ (196,211)	\$ 234,534
Total Enterprise Funds	\$ 3,236,723	\$ 1,887,905	\$ 121,699	\$ 6,374	\$ (177,699)	\$ (1,479,822)	\$ 3,595,179
Total Reporting Entity	\$ 3,933,187	\$ 2,423,120	\$ 321,928	\$ 2,765,752	\$ (321,928)	\$ (4,715,256)	\$ 4,406,803

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

INDEPENDENT AUDITOR’S 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 Lakota, 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 City of Lakota, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Lakota, North Dakota’s basic financial statements and have issued our report thereon dated August 19, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2018-1, described in the accompanying schedule of findings and questioned costs, to be a material weakness.

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. We consider finding 2018-2, described in the accompanying schedule of findings and questioned costs, to be a significant deficiency.

Compliance and Other Matters

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

City of Lakota, North Dakota's Response to Findings

City of Lakota, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lakota, North Dakota's response was not subjected to the auditing procedures applied in the audit 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 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.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 19, 2019

CITY OF LAKOTA, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2018

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2018-1 Segregation of Duties

Condition:

The City of Lakota, North Dakota, has one bookkeeper responsible for most accounting functions and general ledger maintenance.

Effect:

Without adequate fraud risk programs and controls, the City of Lakota exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

Cause:

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 disbursement journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatements to the City of Lakota's financial condition.

Criteria:

The guidance relating to internal control is contained in Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the City of Lakota.

Recommendation:

Due to the size and funding limitations of the City, we understand that it is not feasible to obtain proper segregation of duties. However, if at any time it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the City of Lakota do so. We further recommend that the City implement any controls possible to separate the functions of approval of posting of transactions, reconciliations, and custody of assets.

Client Response:

Management agrees with the recommendation. A member of the board does approve and sign all checks from all bank accounts before release. The financial statements are also reviewed by the governing board.

2018-2 Financial Statement Preparation

Condition:

Mortenson & Rygh assist the City's management in preparing financial statements and disclosures that are presented in accordance with the modified cash basis of accounting.

Effect:

Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Cause:

The City's internal control system is not designed to provide for the preparation of the financial statements and accompanying notes to the financial statements.

Criteria:

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted account principles.

Recommendation:

Due to the size and funding limitations of the City, we understand that it is not feasible for the City to prepare its own financial statements. We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

Client Response:

The City Council is aware of this condition, and will consider the risks and costs associated with the financial statement preparation. The City will continue to request that Mortenson & Rygh assist with preparation of financial statements.