

**CITY OF THOMPSON
THOMPSON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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CITY OF THOMPSON, NORTH DAKOTA
LIST OF OFFICIALS
AS OF DECEMBER 31, 2018

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Desmond Sporbert	Mayor	6/20
Stacey Majkrzak	Council Member	6/22
Dean Larimer	Council Member	6/20
Travis Fretheim	Council Member	6/22
Jeremy Hughes	Council Member	6/20
Barb Robinson	Auditor	Appointed
Richard Olson	Attorney	Appointed
Gayle Bergeron	Municipal Judge	6/22
David Kurtz	Police Officer	Appointed
Terri Herbert	City Administrator	Appointed

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Thompson
Thompson, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Thompson, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Thompson, North Dakota, as of December 31, 2018, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions*. As discussed in Note 10 to the financial statements, the City has retroactively restated the previous reported Net Position in accordance with this statement.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules 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.

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2019, on our consideration of the City of Thompson, North Dakota'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 solely 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 the effectiveness of the City of Thompson's 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 City of Thompson, North Dakota's internal control over financial reporting and compliance.



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

June 14, 2019

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,227,629	\$ 574,662	\$ 1,802,291
Investments	37,801	-	37,801
Receivables:			
Accounts receivable	-	26,756	26,756
Property taxes	1,698	-	1,698
Special assessments	2,296,644	-	2,296,644
Total current assets	<u>3,563,772</u>	<u>601,418</u>	<u>4,165,190</u>
Capital assets-not being depreciated			
Land	18,947	157,736	176,683
Capital assets-being depreciated			
Buildings and improvements	479,044	573,940	1,052,984
Infrastructure	3,122,221	-	3,122,221
Vehicles and equipment	293,278	114,358	407,636
Less: accumulated depreciation	<u>(1,151,731)</u>	<u>(568,556)</u>	<u>(1,720,287)</u>
Net capital assets	<u>2,761,759</u>	<u>277,478</u>	<u>3,039,237</u>
TOTAL ASSETS	<u>6,325,531</u>	<u>878,896</u>	<u>7,204,427</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - Main	66,408	15,321	81,729
Cost sharing defined benefit pension plan - Law Enforcement	29,864	-	29,864
Deferred Outflows of resources-OPEB NDPERS	2,223	206	2,429
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>98,495</u>	<u>15,527</u>	<u>114,022</u>
LIABILITIES			
Accounts payable	8,759	9,842	18,601
Accrued salaries and benefits	1,599	738	2,337
Accrued interest payable	14,466	-	14,466
Notes payable-due within one year	26,206	-	26,206
Bonds payable-due within one year	225,000	-	225,000
Non-current liabilities			
Notes payable-non-current portion	5,333	-	5,333
Bonds payable-non-current portion	2,488,578	-	2,488,578
Net pension liability - Main	163,188	40,371	203,559
Net pension liability - Law Enforcement	31,668	-	31,668
Net OPEB Liability	<u>10,531</u>	<u>1,764</u>	<u>12,295</u>
TOTAL LIABILITIES	<u>2,975,328</u>	<u>52,715</u>	<u>3,028,043</u>
DEFERRED INFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - Main	14,882	3,682	18,564
Cost sharing defined benefit pension plan - Law Enforcement	10,912	-	10,912
Deferred inflows of resources- OPEB NDPERS	541	91	632
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>26,335</u>	<u>3,773</u>	<u>30,108</u>
NET POSITION			
Net investment in capital assets	16,642	277,478	294,120
Restricted-debt service	2,965,694	-	2,965,694
Restricted-highway and streets	101,751	-	101,751
Unrestricted	<u>338,276</u>	<u>560,457</u>	<u>898,733</u>
TOTAL NET POSITION	<u>\$ 3,422,363</u>	<u>\$ 837,935</u>	<u>\$ 4,260,298</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 236,646	\$ 23,805	\$ -	\$ -	\$ (212,841)	\$ -	\$ (212,841)
Public safety	63,516	-	-	-	(63,516)	-	(63,516)
Public works	311,470	-	76,118	-	(235,352)	-	(235,352)
Culture and recreation	3,124	-	-	-	(3,124)	-	(3,124)
Interest	85,893	-	-	-	(85,893)	-	(85,893)
Other debt service charges	2,750	-	-	-	(2,750)	-	(2,750)
Total Governmental Activities	703,399	23,805	76,118	-	(603,476)	-	(603,476)
Business-Type Activities							
Sewer maintenance	74,796	71,253	-	-	-	(3,543)	(3,543)
Sanitation	142,770	177,467	-	-	-	34,697	34,697
Pest Control	6,545	14,297	-	-	-	7,752	7,752
Total Business-Type Activities	224,111	263,017	-	-	-	38,906	38,906
Total Primary Government	<u>\$ 927,510</u>	<u>\$ 286,822</u>	<u>\$ 76,118</u>	<u>\$ -</u>	<u>(603,476)</u>	<u>38,906</u>	<u>(564,570)</u>
General Receipts:							
Property taxes					211,537	-	211,537
Special assessments-interest					117,133	-	117,133
Intergovernmental (not restricted for specific program)					80,214	-	80,214
Interest					903	-	903
Other general revenues					10,584	-	10,584
Total General Revenues					<u>420,371</u>	<u>-</u>	<u>420,371</u>
Changes in Net Position					(183,105)	38,906	(144,199)
Net Position, Beginning of Year					3,616,110	800,577	4,416,687
Prior Period Adjustment -Note 10					<u>(10,642)</u>	<u>(1,548)</u>	<u>(12,190)</u>
Net Position, Beginning as Restated					<u>3,605,468</u>	<u>799,029</u>	<u>4,404,497</u>
Net Position, End of Year					<u>\$ 3,422,363</u>	<u>\$ 837,935</u>	<u>\$ 4,260,298</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	Debt Service Funds						Capital Projects	
	General	Highway	Street Paving Project 2012-1	Street Paving Project 2009-1	Street Paving Project 2013-1	Street Paving Project 2015-1	Street Paving Projects	Total
Assets								
Cash and cash equivalents	\$ 424,954	\$ -	\$ 194,504	\$ 145,314	\$ 344,031	\$ -	\$ 118,826	\$ 1,227,629
Investments	37,801	-	-	-	-	-	-	37,801
Receivables:								
Due from other funds	15,326	-	-	-	-	-	-	15,326
Property taxes	1,698	-	-	-	-	-	-	1,698
Special assessments	-	-	692,085	381,460	804,143	418,956	-	2,296,644
Total Assets	\$ 479,779	\$ -	\$ 886,589	\$ 526,774	\$ 1,148,174	\$ 418,956	\$ 118,826	\$ 3,579,098
Liabilities:								
Accounts payable	\$ 6,677	\$ 2,082	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,759
Due to other funds	-	14,993	-	-	-	333	-	15,326
Accrued salaries and benefits	1,599	-	-	-	-	-	-	1,599
Total Liabilities	8,276	17,075	-	-	-	333	-	25,684
Deferred Inflows of Resources:								
Unavailable revenue-property taxes	1,698	-	-	-	-	-	-	1,698
Uncertified special assessments	-	-	692,085	381,460	804,143	418,956	-	2,296,644
Total Deferred Inflows of Resources	1,698	-	692,085	381,460	804,143	418,956	-	2,298,342
Fund Balance								
Restricted								
Debt service	-	-	194,504	145,314	344,031	-	-	683,849
Streets	-	-	-	-	-	-	118,826	118,826
Total Restricted	-	-	194,504	145,314	344,031	-	118,826	802,675
Unassigned	469,805	(17,075)	-	-	-	(333)	-	452,397
Total Fund Balance	469,805	(17,075)	194,504	145,314	344,031	(333)	118,826	1,255,072
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 479,779	\$ -	\$ 886,589	\$ 526,774	\$ 1,148,174	\$ 418,956	\$ 118,826	\$ 3,579,098

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

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

Total fund balance-governmental funds	\$ 1,255,072
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 3,913,490	
Accumulated Depreciation	(1,151,731)	
Net		2,761,759

Net deferred outflows/inflows of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/inflows of resources in the governmental funds.

NDPERS Pension		70,478
OPEB NDPERS		1,682

Property tax and special assessments receivable will not be collected soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.

Unavailable property taxes	1,698	
Uncertified special assessments	2,296,644	
		2,298,342

Interest payable reported in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.	(14,466)
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:

Notes payable	(31,539)	
Bonds payable	(2,720,000)	
Bond discount	6,422	
Net pension liability - Main	(163,188)	
Net pension liability - Law Enforcement	(31,668)	
Net OPEB liability	(10,531)	
		(2,950,504)

Total net position-governmental activities	\$ <u>3,422,363</u>
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See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Debt Service Funds						Capital Projects	Total
	General	Highway	Street Paving Project 2012-1	Street Paving Project 2009-1	Street Paving Project 2013-1	Street Paving Project 2015-1	Street Paving Projects	
Revenues:								
Taxes	\$ 212,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 212,517
Special assessments	-	-	87,024	47,564	95,231	41,956	-	271,775
Licenses, permits and fees	19,450	-	-	-	-	-	-	19,450
Intergovernmental revenues	80,214	76,118	-	-	-	-	-	156,332
Fines and forfeits	4,355	-	-	-	-	-	-	4,355
Interest	903	-	-	-	-	-	-	903
Other	10,584	-	-	-	-	-	-	10,584
Total revenues	<u>328,023</u>	<u>76,118</u>	<u>87,024</u>	<u>47,564</u>	<u>95,231</u>	<u>41,956</u>	<u>-</u>	<u>675,916</u>
Expenditures:								
Current:								
General government	217,737	-	-	-	-	-	-	217,737
Public safety	58,687	-	-	-	-	-	-	58,687
Public works	26,220	82,678	-	-	-	-	-	108,898
Culture and recreation	3,124	-	-	-	-	-	-	3,124
Capital outlay	13,544	33,864	-	-	-	-	-	47,408
Debt service:								
Principal	5,047	20,489	95,000	25,000	70,000	35,000	-	250,536
Interest	434	1,073	23,885	16,264	32,183	12,847	-	86,686
Service charges	-	-	688	687	687	688	-	2,750
Total expenditures	<u>324,793</u>	<u>138,104</u>	<u>119,573</u>	<u>41,951</u>	<u>102,870</u>	<u>48,535</u>	<u>-</u>	<u>775,826</u>
Net change in fund balance	3,230	(61,986)	(32,549)	5,613	(7,639)	(6,579)	-	(99,910)
Fund Balance, Beginning of Year	<u>466,575</u>	<u>44,911</u>	<u>227,053</u>	<u>139,701</u>	<u>351,670</u>	<u>6,246</u>	<u>118,826</u>	<u>1,354,982</u>
Fund Balance, End of Year	<u>\$ 469,805</u>	<u>\$ (17,075)</u>	<u>\$ 194,504</u>	<u>\$ 145,314</u>	<u>\$ 344,031</u>	<u>\$ (333)</u>	<u>\$ 118,826</u>	<u>\$ 1,255,072</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Net change in fund balance- total governmental funds	\$ (99,910)
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Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 47,408	
Depreciation Expense	<u>(214,727)</u>	
Excess of capital outlay over depreciation expense		(167,319)

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Retirement of long-term debt	250,536
Amortization of bond discount	(247)

Changes in deferred outflows/inflows of resources related to net pension and OPEB liability	(14,201)
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Changes in net pension liability	2,248
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Change in net OPEB liability	370
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Some revenues will not be collected for several months after the City's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:

Net change in unavailable property taxes	(980)
Net change in uncertified special assessments	(154,642)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

	<u>1,040</u>
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Net change in net position of governmental activities	<u>\$ (183,105)</u>
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See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF NET POSITION – ENTERPRISE FUNDS
AS OF DECEMBER 31, 2018

	<u>Sewer Maintenance</u>	<u>Sanitation</u>	<u>Pest Control</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 234,274	\$ 330,053	\$ 10,335	\$ 574,662
Accounts receivable	7,598	17,660	1,498	26,756
Total Current Assets	<u>241,872</u>	<u>347,713</u>	<u>11,833</u>	<u>601,418</u>
Capital assets-not being depreciated				
Land	153,236	4,500	-	157,736
Capital assets				
Buildings and improvements	573,940	-	-	573,940
Vehicles and equipment	105,146	-	9,212	114,358
Less: accumulated depreciation	(564,487)	-	(4,069)	(568,556)
Net Capital Assets	<u>267,835</u>	<u>4,500</u>	<u>5,143</u>	<u>277,478</u>
TOTAL ASSETS	<u>509,707</u>	<u>352,213</u>	<u>16,976</u>	<u>878,896</u>
Deferred Outflows of Resources				
Cost sharing defined benefit pension plan - Main	8,921	4,550	1,850	15,321
Cost sharing OPEB NDPERS	120	61	25	206
Total deferred outflows	<u>9,041</u>	<u>4,611</u>	<u>1,875</u>	<u>15,527</u>
Liabilities				
Current liabilities				
Accounts payable	396	9,446	-	9,842
Accrued salaries and benefits	364	211	163	738
Total current liabilities	<u>760</u>	<u>9,657</u>	<u>163</u>	<u>10,580</u>
Long-term liabilities				
Net pension liability - Main	23,507	11,989	4,875	40,371
Net OPEB Liability	1,027	524	213	1,764
Total long-term liabilities	<u>24,534</u>	<u>12,513</u>	<u>5,088</u>	<u>42,135</u>
TOTAL LIABILITIES	<u>25,294</u>	<u>22,170</u>	<u>5,251</u>	<u>52,715</u>
DEFERRED INFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan - Main	2,144	1,093	445	3,682
Cost sharing OPEB NDPERS	53	27	11	91
Total deferred inflows	<u>2,197</u>	<u>1,120</u>	<u>456</u>	<u>3,773</u>
Net Position				
Net investment in capital assets	267,835	4,500	5,143	277,478
Unrestricted	223,422	329,034	8,001	560,457
TOTAL NET POSITION	<u>\$ 491,257</u>	<u>\$ 333,534</u>	<u>\$ 13,144</u>	<u>\$ 837,935</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Sewer Maintenance</u>	<u>Sanitation</u>	<u>Pest Control</u>	<u>Total</u>
Operating Revenues:				
Sewage collections	\$ 71,253	\$ -	\$ -	\$ 71,253
Garbage collections	-	177,467	-	177,467
Pest control collection	-	-	14,297	14,297
Total operating revenues	<u>71,253</u>	<u>177,467</u>	<u>14,297</u>	<u>263,017</u>
Operating Expenses:				
Salaries and benefits	14,615	7,454	3,654	25,723
Utilities	2,861	-	-	2,861
Repairs and maintenance	34,879	-	-	34,879
Refuse collections	-	135,316	-	135,316
Miscellaneous	-	-	1,048	1,048
Depreciation	22,441	-	1,843	24,284
Total operating expenses	<u>74,796</u>	<u>142,770</u>	<u>6,545</u>	<u>224,111</u>
Operating Income	(3,543)	34,697	7,752	38,906
Net Position, Beginning of Year	495,681	299,286	5,610	800,577
Prior Period Adjustment-Note 10	<u>(881)</u>	<u>(449)</u>	<u>(218)</u>	<u>(1,548)</u>
Net Position-Beginning as Restated	<u>494,800</u>	<u>298,837</u>	<u>5,392</u>	<u>799,029</u>
Net Position, End of Year	<u>\$ 491,257</u>	<u>\$ 333,534</u>	<u>\$ 13,144</u>	<u>\$ 837,935</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Sewer Maintenance</u>	<u>Sanitation</u>	<u>Pest Control</u>	<u>Total</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:				
Cash received from customers	\$ 71,450	\$ 178,739	\$ 13,913	\$ 264,102
Cash payments to suppliers	(63,910)	(134,939)	(885)	(199,734)
Cash payments to employees for services	(9,616)	(4,898)	(3,131)	(17,645)
Net cash provided (used) by operating activities	<u>(2,076)</u>	<u>38,902</u>	<u>9,897</u>	<u>46,723</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,076)	38,902	9,897	46,723
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>236,350</u>	<u>291,151</u>	<u>438</u>	<u>527,939</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 234,274</u></u>	<u><u>\$ 330,053</u></u>	<u><u>\$ 10,335</u></u>	<u><u>\$ 574,662</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ (3,543)	\$ 34,697	\$ 7,752	\$ 38,906
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	22,441	-	1,843	24,284
Changes in assets and liabilities:				
(Increase) Decrease in accounts receivable	197	1,272	(384)	1,085
(Increase) Decrease in deferred outflows of resources	308	152	442	902
Increase (Decrease) in accounts payable	(26,170)	377	163	(25,630)
Increase (Decrease) in deferred inflows of resources	654	335	74	1,063
Increase (Decrease) in net pension liability	3,912	2,005	18	5,935
Increase (Decrease) in net OPEB liability	125	64	(11)	178
Net cash provided (used) by operating activities	<u><u>\$ (2,076)</u></u>	<u><u>\$ 38,902</u></u>	<u><u>\$ 9,897</u></u>	<u><u>\$ 46,723</u></u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Thompson complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City of Thompson is a municipality in which citizens elect the mayor at large and four council members by wards. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence over financial accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

The City uses the criteria established by the Governmental Accounting Standards Board in determining financial accountability. The criteria include, but are not limited to, appointing a voting majority of an organization's governing board, and 1) the ability of the entity 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 entity. The City has determined that no component units meet the above criteria and, therefore, none have been included as discretely presented component units in the City's financial statements.

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows/inflows of resources, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three categories: governmental, proprietary and fiduciary.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of an individual fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5 percent of the corresponding total for the total of all governmental and enterprise funds combined.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Major funds for the governmental funds are the General Fund, Special Revenue – Highway Fund, Debt Service Fund – Street Paving Project 2012-1, Debt Service Fund – Street Paving Project 2009-1, Debt Service Fund – Street Paving Project 2013-1, Debt Service Fund – Street Paving Project 2015-1 and Capital Projects Fund – Street Paving Projects.

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

The Highway fund is used for the maintenance and improvement of the City's highway and roads. The fund's major revenue source is state money received from the state highway tax.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt, principal and interest.

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector. The City includes all of the enterprise funds as major, which consist of the Sewer Maintenance, Sanitation and the Pest Control Funds.

Fiduciary Funds

The reporting focus of fiduciary funds is on net assets. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Currently, the City of Thompson has no fiduciary funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using, the "current financial resources" measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and claims and judgments (if any), are recorded only when payment is due.

Budgets

The governing body of each municipality, annually on or before August 10, shall make, on suitable blanks prescribed by the state tax commissioner and state auditor, an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year. The annual budget shall be prepared for the general fund, special revenue funds and debt service funds. The budget is prepared on the cash basis, which is not materially different from the modified accrual basis.

The preliminary budget shall set forth specifically:

- 1) Estimated expenditures of the municipality for the current fiscal year.
- 2) Estimated expenditures for the ensuing fiscal year.
- 3) Estimated cash balance standing to the debit or credit of the municipality at the end of the current year.
- 4) Estimate of probable amounts that may be received during the ensuing year from sources other than direct property taxes, and a statement of all the uncollected taxes due to the municipality.

After the preliminary budget has been prepared, the city auditor shall give notice that the preliminary budget is on file in the office of the auditor and that such budget may be examined by anyone requesting to do so. The governing body shall meet for the purpose of adopting the final budget and making the annual tax levy no later than October 7.

After completing the final budget on or before October 7, the governing body shall proceed to make the annual tax levy. Immediately after the completion of the final budget and the adoption of the tax levy by the governing body, the auditor shall send to the county auditor two certified copies of the final budget and levy no later than October 10.

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, of each year. The budget amounts shown in the financial statements are the final authorized amounts.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

The unexpended balance of the cash appropriation becomes a part of the unappropriated balance at year end.

Cash and Cash Equivalents

In accordance with the governmental accounting standards board, the City considers cash equivalents to be temporary investments, which are readily convertible to cash, such as commercial paper and treasury bills of less than three months.

Investments

Investments consist of certificates of deposit.

Accounts Receivable

Accounts receivable consists of amounts due from individuals and businesses for utility charges by the City. Amounts past due at year end are assessed to the property owner and included as part of their property tax billing for the year.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e. roads, bridges, sidewalks, storm sewers and similar improvements), are reported in the government-wide statements in the applicable governmental or business-type activities column and in the proprietary fund statements. Capital assets that have been purchased or constructed have been valued at historical cost or estimated historical cost. Donated assets are recorded at estimated acquisition value at the time of donation.

Depreciation on exhaustible capital assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by type of asset is as follows:

Building and improvements	20 – 50 years
Vehicles and equipment	5 – 20 years
Infrastructure	15 – 50 years

Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements.

In the governmental fund financial statements, long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Uses" and "Expenditures", respectively, in the fund financial statements.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Net Position

In the government-wide financial statements, equity is classified as “net position” and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance

The difference between assets, deferred outflows/inflows and liabilities is “Net Position” on the government wide financial statements and “Fund Balance” on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance represents a portion of fund balance that includes 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 represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance 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 which is the Council through a resolution.

Assigned fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

The first priority is to utilize the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned. If both restricted and unrestricted resources are available to use for the same purpose, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Minimum Fund Balance Policy

The Council has not formally adopted a fund balance policy for the General Fund.

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements.

Estimates

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.

Inter-fund Balances

In the process of aggregating the fund information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the City's governmental activities and its business-type activities are eliminated in the statement of activities.

Revenues

The City has the following program revenues: fees, fines and charges for services, operating and capital grants or contributions that are specific to a program. All other governmental revenues and general tax levies are classified as general revenues.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, special assessments, intergovernmental revenues and investment income.

Operating revenues and expenses in the proprietary funds consist of user fees, sales, charges for services and the related income and expenses associated with providing those sales and

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

services. Non-operating revenues and expenses consist of contributions, grants, rents, interest and other miscellaneous items not associated with the services the fund is providing.

Revenues-Exchange and Non-Exchange Transactions

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the City receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the City.

Property Taxes

Property taxes attach as an enforceable lien on January 1st of the year collectible. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if taxes are not paid.

Property taxes are all considered susceptible to accrual and so have been recognized as revenues in the current fiscal period. However, delinquent taxes may not be collected soon enough in the following year to be available for current expenditures, therefore offset by deferred inflows of resources.

Unearned Revenue

Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has three items reported on the statement of net position as *cost sharing defined benefit pension plan* and *deferred resources-OPEB* which represents actuarial differences within the NDPERS pension plans and OPEB plan as well as amounts paid to the plans after the measurement date. See Notes 5 and 6 for more details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, *unavailable property taxes* and *uncertified special assessments* are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has three items reported on the statement of net position as *cost sharing defined benefit pension plan and deferred resources-OPEB*, which represents the actuarial differences within the NDPERS pension plans and OPEB plan. See Notes 5 and 6 for more details.

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.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash pool of which each fund's portion is displayed on their respective balance sheet as cash and cash equivalents for the general fund, highway fund and the business type activities. The City maintains separate accounts for each of its debt service funds.

The City's investments consist of certificates of deposits.

In accordance with North Dakota laws, the City maintains deposits at a depository authorized by the city council. The depository is a member of the Federal Reserve System.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Risk

State statutes require that market value of collateral pledged to secure deposits not covered by insurance must equal 110% of the deposits. The City's cash and investments are held by the designated depository.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Credit Risk

State statutes authorize local governments to invest in:

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

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the governmental activities for the year ended December 31, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not depreciated				
Land	\$ 18,947	\$ -	\$ -	\$ 18,947
Capital assets depreciated				
Buildings and improvements	479,044	-	-	479,044
Infrastructure	3,122,221	-	-	3,122,221
Vehicles and equipment	245,870	47,408	-	293,278
Total Capital Assets	<u>3,866,082</u>	<u>47,408</u>	<u>-</u>	<u>3,913,490</u>
Accumulated Depreciation				
Buildings and improvements	169,147	11,819	-	180,966
Infrastructure	625,019	186,616	-	811,635
Vehicles and equipment	142,838	16,292	-	159,130
Total Accumulated Depreciation	<u>937,004</u>	<u>214,727</u>	<u>-</u>	<u>1,151,731</u>
Net Capital Assets - Gov't Activities	<u>\$ 2,929,078</u>	<u>\$ (167,319)</u>	<u>\$ -</u>	<u>\$ 2,761,759</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Changes in capital assets for the business-type activities for the year ended December 31, 2018 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Sewer Maintenance				
Land	\$ 153,236	\$ -	\$ -	\$ 153,236
Buildings and improvements	573,940	-	-	573,940
Vehicles and equipment	105,146	-	-	105,146
Total Sewer Maint. Capital Assets	<u>832,322</u>	<u>-</u>	<u>-</u>	<u>832,322</u>
 Sewer Maint. Accum. Depreciation				
Buildings and improvements	460,142	15,426	-	475,568
Vehicles and equipment	81,904	7,015	-	88,919
Total Accumulated Depreciation	<u>542,046</u>	<u>22,441</u>	<u>-</u>	<u>564,487</u>
 Net Capital Assets - Sewer Maint.	<u>\$ 290,276</u>	<u>\$ (22,441)</u>	<u>\$ -</u>	<u>\$ 267,835</u>
	Beginning Balance	Additions	Disposals	Ending Balance
Sanitation				
Land	\$ 4,500	\$ -	\$ -	\$ 4,500
Total Sanitation Capital Assets	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>4,500</u>
 Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net Capital Assets - Sanitation	<u>\$ 4,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,500</u>
	Beginning Balance	Additions	Disposals	Ending Balance
Pest Control				
Vehicles and equipment	\$ 9,212	\$ -	\$ -	\$ 9,212
Total Pest Control Capital Assets	<u>9,212</u>	<u>-</u>	<u>-</u>	<u>9,212</u>
 Pest Control Accum. Depreciation				
Vehicles and equipment	2,226	1,843	-	4,069
Total Accumulated Depreciation	<u>2,226</u>	<u>1,843</u>	<u>-</u>	<u>4,069</u>
 Net Capital Assets - Pest Control	<u>\$ 6,986</u>	<u>\$ (1,843)</u>	<u>\$ -</u>	<u>\$ 5,143</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Depreciation expenses charged to the various functions in the Statement of Activities are as follows:

Governmental Activities	
General government	\$ 7,326
Public safety	4,829
Public works	<u>202,572</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 214,727</u></u>
Business-Type Activities	
Sewer Maintenance	\$ 22,441
Pest Control	<u>1,843</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 24,284</u></u>

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in the long-term debt by individual issue for the year ended December 31, 2018:

Governmental Activities	Interest Rate	Beginning Balance	New Issues	Reductions	Other	Ending Balance	Due within One Year
First State Bank	2.55%	\$ 41,508	\$ -	\$ 20,489	\$ -	\$ 21,019	\$ 21,019
First State Bank	2.75%	15,567	-	5,047	-	10,520	5,187
\$1,200,000 Refunding Improvement Bonds, Series 2013	1.1% - 4%	1,000,000	-	70,000	-	930,000	70,000
\$1,500,000 Refunding Improvement Bonds, Series 2012	.75% - 3%	1,050,000	-	95,000	-	955,000	95,000
\$565,000 Refunding Improvement Bonds, Series 2009	2.50% - 4.65%	390,000	-	25,000	-	365,000	25,000
\$570,000 Refunding Improvement Bonds, Series 2015	1.4%-3.25%	505,000	-	35,000	-	470,000	35,000
Discount on Bond		(6,669)	-	(247)	-	(6,422)	-
Net Pension Liability - Main		162,735	-	-	453	163,188	-
Net Pension Liability - Law Enforcement		34,369	-	-	(2,701)	31,668	-
Net OPEB Liability - NDPERS		10,901	-	-	(370)	10,531	-
		<u>\$ 3,203,411</u>	<u>\$ -</u>	<u>\$ 250,289</u>	<u>\$ (2,618)</u>	<u>\$ 2,950,504</u>	<u>\$ 251,206</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Business Type Activities	Interest Rate	Beginning Balance	New Issues	Reductions	Other	Ending Balance	Due within One Year
Net Pension Liability - Main		\$ 34,436	\$ -	\$ -	\$ 5,935	\$ 40,371	\$ -
Net OPEB Liability NDPERS		1,586	-	-	178	1,764	-
		<u>\$ 36,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,113</u>	<u>\$ 42,135</u>	<u>\$ -</u>

The amount of future payments on the above governmental activities long-term debt is as follows:

	<u>\$1,500,000 Refunding Improvement</u>			<u>\$565,000 Refunding Improvement</u>		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 95,000	\$ 22,531	\$ 117,531	\$ 25,000	\$ 15,358	\$ 40,358
2020	100,000	20,825	120,825	25,000	14,358	39,358
2021	100,000	19,075	119,075	30,000	13,258	43,258
2022	105,000	16,888	121,888	30,000	12,058	42,058
2023	105,000	14,263	119,263	30,000	10,820	40,820
2024-2028	450,000	27,025	477,025	185,000	31,224	216,224
2029-2033	-	-	-	40,000	930	40,930
Total	<u>\$ 955,000</u>	<u>\$ 120,606</u>	<u>\$ 1,075,606</u>	<u>\$ 365,000</u>	<u>\$ 98,004</u>	<u>\$ 463,004</u>

	<u>\$1,200,000 Refunding Improvement</u>			<u>\$570,000 Refunding Improvement</u>		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 70,000	\$ 30,695	\$ 100,695	\$ 35,000	\$ 12,253	\$ 47,253
2020	75,000	28,955	103,955	35,000	11,553	46,553
2021	75,000	27,005	102,005	35,000	10,853	45,853
2022	80,000	24,835	104,835	35,000	10,074	45,074
2023	80,000	22,475	102,475	35,000	9,216	44,216
2024-2028	450,000	65,818	515,818	205,000	30,226	235,226
2029-2033	100,000	2,000	102,000	90,000	2,925	92,925
Total	<u>\$ 930,000</u>	<u>\$ 201,783</u>	<u>\$ 1,131,783</u>	<u>\$ 470,000</u>	<u>\$ 87,099</u>	<u>\$ 557,099</u>

	<u>First State Bank</u>			<u>First State Bank</u>		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 21,019	\$ 543	\$ 21,562	\$ 5,187	\$ 293	\$ 5,480
2020	-	-	-	5,333	149	5,482
2021	-	-	-	-	-	-
Total	<u>\$ 21,019</u>	<u>\$ 543</u>	<u>\$ 21,562</u>	<u>\$ 10,520</u>	<u>\$ 442</u>	<u>\$ 10,962</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Combined Debt Payments Governmental Activities			
	Principal	Interest	Total
2019	\$ 251,206	\$ 81,672	\$ 332,878
2020	240,333	75,839	316,172
2021	240,000	70,190	310,190
2022	250,000	63,854	313,854
2023	250,000	56,774	306,774
2024-2028	1,290,000	154,293	1,444,293
2029-2033	230,000	5,855	235,855
	<u>\$ 2,751,539</u>	<u>\$ 508,477</u>	<u>\$ 3,260,016</u>

NOTE 5 - 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 issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 E. Broadway, Suite 505; PO Box 1214; Bismarck, ND 58502-1214.

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 provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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 normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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

At December 31, 2018, the City reported a liability of \$203,559 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the City's proportion was 0.012062 percent which was a decrease of 0.000205 from its proportion measured June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$31,496. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 537	\$ 6,925
Changes in actuarial assumptions	73,481	2,905
Difference between projected and actual investment earnings	-	990
Changes in proportion	3,236	7,744
Contributions paid to NDPERS subsequent to the measurement date	4,475	-
Total	<u>\$ 81,729</u>	<u>\$ 18,564</u>

\$4,475 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 ending 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:

<u>Year Ending June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ 18,866
2020	16,181
2021	14,538
2022	8,671
2023	434

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Actuarial Assumptions

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	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	10.00%
	36 - 40	7.50%
	41 - 49	6.75%
	50-59	6.50%
	60+	5.25%

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

Investment rate of return	7.75%, 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 SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages 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	30.00%	6.05%
International Equity	21.00%	6.70%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%
Cash Equivalents	0.00%	0.00%

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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, 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 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 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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 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 in Discount Rate 5.32%		Discount Rate 6.32%		1% Increase in Discount Rate 7.32%	
City's proportionate share of the NDPERS net pension liability:	\$	276,599	\$	203,559	\$	142,610

Pension Plan Fiduciary Net Position

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

NDPERS Law Enforcement Retirement System (Law Enforcement System)

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

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System 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. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement 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 (55) with three or more years of service. 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 50-55 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 in the Law Enforcement 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 Law Enforcement 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.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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

Refunds of Member Account Balance

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 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 established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	10.31%
National Guard	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

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

At December 31, 2018, the Employer reported a liability of \$31,668 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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/contributions in the Law Enforcement System pension plan relative to the covered payroll/contributions of all participating Law Enforcement System employers. At June 30, 2018, the Employer's proportion was 0.135891 percent, which was a decrease of 0.020215 from its proportion measured as of June 30, 2017.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

For the year ended December 31, 2018, the Employer recognized pension expense of \$6,295. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,251	\$ 665
Changes in actuarial assumptions	15,556	516
Difference between projected and actual investment earnings	-	887
Changes in proportion	7,403	8,844
Contributions paid to NDPERS subsequent to the measurement date	3,654	-
Total	<u>\$ 29,864</u>	<u>\$ 10,912</u>

\$3,654 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction for the net pension liability in the year ending 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:

<u>Year Ending June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ 2,807
2020	2,629
2021	5,774
2022	3,757
2023	331

Actuarial Assumptions

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	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	10.00%
	36 - 40	7.50%
	41 - 49	6.75%
	50-59	6.50%
	60+	5.25%

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

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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 SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages 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	30.00%	6.05%
International Equity	21.00%	6.70%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%
Cash Equivalents	0.00%	0.00%

Discount Rate

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

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

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 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 in Discount Rate 5.32%	Discount Rate 6.32%	1% Increase in Discount Rate 7.32%
City's proportionate share of the NDPERS net pension liability:	\$ 48,875	\$ 31,668	\$ 17,689

Pension Plan Fiduciary Net Position

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

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

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.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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 City reported a liability of \$12,295 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 .015611 percent.

For the year ended December 31, 2018, the City recognized OPEB expense of \$1,511. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 367	\$ 254
Changes in actuarial assumptions	1,009	-
Difference between projected and actual investment earnings	-	264
Changes in proportion	65	114
Contributions paid to NDPERS subsequent to the measurement date	988	-
Total	<u>\$ 2,429</u>	<u>\$ 632</u>

\$988 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 ending December 31, 2019.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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

Year Ending June 30:	OPEB Expense Amount
2019	\$ 92
2020	92
2021	92
2022	209
2023	188
2024	114
2025 and thereafter	22

Actuarial assumptions. The total OPEB liability in the July 1, 2017 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
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

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 in Discount Rate 6.50%	Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
City's proportionate share of the NDPERS net OPEB liability:	\$ 15,556	\$ 12,295	\$ 9,499

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2018, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

The City 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. The City carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City's property insurance is through the Tri-State Insurance Co. of Minnesota, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workers' Compensation Bureau. Other risks are covered by private insurance.

NOTE 8 – SIGNIFICANT GROUP CONCENTRATIONS

As of December 31, 2018, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

NOTE 9 - DUE TO FROM OTHER FUNDS

Due from other funds	
General	<u>\$ 15,326</u>
Due to other funds	
Special revenue - Highway	\$ 14,993
Street Paving Project 2015-1	<u>333</u>
	<u>\$ 15,326</u>

Intercompany receivables and payables were made to cover the City's cash flow needs as of December 31, 2018.

NOTE 10 - ACCOUNTING CHANGES

The City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement requires the City to record their total OPEB liability on the Statement of Net Position. Liabilities are calculated using the Entry Age actuarial cost method.

As a result, beginning net position has been restated as of January 1, 2018 as follows:

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Net position, January 1, 2018 as previously reported	\$ 3,616,110	\$ 800,577	\$ 4,416,687
Restatement for OPEB Accounting			
Net OPEB liability	(10,901)	(1,586)	(12,487)
Net deferred outflows/inflows of resources	<u>259</u>	<u>38</u>	<u>297</u>
Net position, January 1, 2018 as restated	<u>\$ 3,605,468</u>	<u>\$ 799,029</u>	<u>\$ 4,404,497</u>

NOTE 11 - FUND DEFICITS

As of December 31, 2018, two funds of the City were in a deficit fund balance as listed in the following schedule. The City will eliminate the deficit with future revenues and transfers from other funds.

Highway Fund	\$ 17,075
Debt Service Fund 2015-1 Street Paving	<u>333</u>
	<u>\$ 17,408</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

NOTE 12 - NEW PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged

Management has not yet determined what effect these statements will have on the City's financial statements.

NOTE 13 – SUBSEQUENT EVENTS

No significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through June 14, 2019, which is the date these financial statements were available to be issued.

CITY OF THOMPSON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Taxes	\$ 218,253	\$ 218,253	\$ 212,517	\$ (5,736)
Licenses, permits and fees	11,025	11,025	19,450	8,425
Intergovernmental revenues	75,700	75,700	80,214	4,514
Fines and forfeits	4,500	4,500	4,355	(145)
Interest	510	510	903	393
Other	1,125	1,125	10,584	9,459
	<u>311,113</u>	<u>311,113</u>	<u>328,023</u>	<u>16,910</u>
Total revenues				
Expenditures:				
Current:				
General government	280,295	280,295	217,737	62,558
Public safety	78,400	78,400	58,687	19,713
Public works	58,566	58,566	26,220	32,346
Culture and recreation	6,500	6,500	3,124	3,376
Capital outlay	-	-	13,544	(13,544)
Debt Service				
Principal	5,100	5,100	5,047	53
Interest	500	500	434	66
	<u>429,361</u>	<u>429,361</u>	<u>324,793</u>	<u>104,568</u>
Total expenditures				
Excess of Revenues Over (Under)				
Expenditures	(118,248)	(118,248)	3,230	121,478
Fund Balance, Beginning of Year	466,575	466,575	466,575	-
Fund Balance, End of Year	<u>\$ 348,327</u>	<u>\$ 348,327</u>	<u>\$ 469,805</u>	<u>\$ 121,478</u>

See the Note to the Budgetary Comparison Schedules

CITY OF THOMPSON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL –
HIGHWAY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Intergovernmental revenues	\$ 68,000	\$ 68,000	\$ 76,118	\$ 8,118
Other	20	20	-	(20)
Total revenues	<u>68,020</u>	<u>68,020</u>	<u>76,118</u>	<u>8,098</u>
Expenditures:				
Current:				
Public works	93,713	93,713	82,678	11,035
Capital outlay	35,000	35,000	33,864	1,136
Debt service:				
Principal	20,000	20,000	20,489	(489)
Interest	1,100	1,100	1,073	27
Total expenditures	<u>149,813</u>	<u>149,813</u>	<u>138,104</u>	<u>11,709</u>
Excess of Revenues Over (Under)				
Net Change in Fund Balance	(81,793)	(81,793)	(61,986)	19,807
Fund Balance, Beginning of Year	<u>44,911</u>	<u>44,911</u>	<u>44,911</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (36,882)</u>	<u>\$ (36,882)</u>	<u>\$ (17,075)</u>	<u>\$ 19,807</u>

See the Note to the Budgetary Comparison Schedules

CITY OF THOMPSON, NORTH DAKOTA
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
AS OF DECEMBER 31, 2018

NOTE 1 - BUDGETS

The governing body of each municipality, annually on or before August 10, shall make, on suitable blanks prescribed by the state tax commissioner and state auditor, an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year. The annual budget shall be prepared for the general fund, special revenue fund and debt service funds. The budget is prepared on the cash basis, which is not materially different from the modified accrual basis.

The preliminary budget shall set forth specifically:

- 1) Estimated expenditures of the municipality for the current fiscal year.
- 2) Estimated expenditures for the ensuing fiscal year.
- 3) Estimated cash balance standing to the debit or credit of the municipality at the end of the current year.
- 4) Estimate of probable amounts that may be received during the ensuing year from sources other than direct property taxes, and a statement of all the uncollected taxes due to the municipality.

After the preliminary budget has been prepared, the city auditor shall give notice that the preliminary budget is on file in the office of the auditor and that such budget may be examined by anyone requesting to do so. The governing body shall meet for the purpose of adopting the final budget and making the annual tax levy no later than October 7.

After completing the final budget on or before October 7, the governing body shall proceed to make the annual tax levy. Immediately after the completion of the final budget and the adoption of the tax levy by the governing body, the auditor shall send to the county auditor two certified copies of the final budget and levy no later than October 10.

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, of each year. The budget amounts shown in the financial statements are the final authorized amounts.

The unexpended balance of the cash appropriation becomes a part of the unappropriated balance at year end.

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

Main System

Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.012062%	\$ 203,559	\$ 123,911	164.28%	62.80%
2017	0.012267%	197,171	125,225	157.45%	61.98%
2016	0.011560%	112,663	116,500	96.71%	70.46%
2015	0.012689%	86,283	113,046	76.33%	77.15%

Law Enforcement

Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.135891%	\$ 31,668	\$ 46,911	67.51%	71.64%
2017	0.156106%	34,369	44,905	76.54%	87.23%
2016	0.000000%	-	-	0.00%	78.73%
2015	0.000000%	-	-	0.00%	83.61%

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

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

See Note to the Required Supplementary Information

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
AS OF DECEMBER 31, 2018

Main System

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 8,943	\$ (8,943)	\$ -	\$ 125,601	7.12%
2017	8,666	(8,666)	-	121,717	7.12%
2016	8,474	(8,474)	-	119,017	7.12%
2015	8,587	(8,587)	-	120,604	7.12%

Law Enforcement

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 4,673	\$ (4,673)	\$ -	\$ 47,631	9.81%
2017	4,479	(4,479)	-	45,654	9.81%
2016	-	-	-	-	0.00%
2015	-	-	-	-	0.00%

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

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

See Note to the Required Supplementary Information

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF CITY'S CONTRIBUTIONS TO OPEB PLAN
AS OF DECEMBER 31, 2018

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 1,975	\$ 1,975	-	\$ 173,232	1.14%

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

The City implemented GASB Statement No. 75 for its year ended December 31, 2018. Information for the prior years is not available.

See Note to the Required Supplementary Information

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF CITY'S SHARE OF THE OPEB LIABILITY
AS OF DECEMBER 31, 2018

<u>Year Ended June</u> <u>30</u>	<u>City's Proportion of</u> <u>the Net OPEB</u> <u>Liability (Asset)</u>	<u>City's</u> <u>Proportionate</u> <u>Share of the</u> <u>Net OPEB</u> <u>Liability</u> <u>(Asset)</u>	<u>City's Covered</u> <u>Payroll</u>	<u>City's</u> <u>Proportionate</u> <u>Share of the Net</u> <u>OPEB Liability</u> <u>(Asset) as a</u> <u>Percentage of</u> <u>its Covered</u> <u>Payroll</u>	<u>Plan Fiduciary</u> <u>Net Position</u> <u>as a</u> <u>Percentage of</u> <u>the Total</u> <u>OPEB Liability</u>
2018	0.015611%	\$ 12,295	\$ 170,822	7.20%	61.89%

The amounts presented for each fiscal year were determined as of the measurement date of the City's other postemployment benefit liability which is June 30 of the previous fiscal year.

The City implemented GASB Statement No. 75 for its year ended December 31, 2018. Information for the prior years is not available.

See Note to the Required Supplementary Information

CITY OF THOMPSON, NORTH DAKOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2018

NOTE 1 - 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.

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

To the City Council
City of Thompson
Thompson, North Dakota

We have audited 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, the financial statements of the governmental activities, business-type activities, and each major fund of City of Thompson as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Thompson's basic financial statements and have issued our report thereon dated June 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Thompson'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 Thompson's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Thompson'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 were not identified. However, as described in the accompanying schedule of findings and responses, 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or 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 the deficiency described in the accompanying schedule of findings and responses identified as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



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

June 14, 2019

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
AS OF DECEMBER 31, 2018

Control Deficiency 2018-001 – Material Weakness

Condition:

The City has two office employees who are responsible for all accounting and administrative functions. Both individuals handle incoming monies, prepare receipts, prepare deposits, issues and distribute checks, receive bank statements and do the reconciliations. Both employees also record receipts and disbursements to the journals and maintain the general ledger. The degree of internal control is severely limited.

Cause:

Considering the size of the City, it is not feasible to maintain proper separation of duties.

Effect:

Lack of segregation of duties leads to a limited degree of internal controls.

Recommendation:

The City should attempt to maintain proper separation of duties, whenever possible.

Response:

We concur with the auditor's recommendation. The City will consider the costs and benefits of this recommendation.

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
AS OF DECEMBER 31, 2018

Control Deficiency 2018-002 – Significant Deficiency

Criteria

An organization should design an internal control system to provide for the preparation of financial statements of the City.

Condition:

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause:

The City is responsible for the preparation of the financial statements and accompanying notes to the financial statements to be audited. 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.

Effect:

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements including proposing journal entries necessary to bring the financial statements into compliance with accounting principles generally accepted in the United States of America. This circumstance is not unusual in a city of your size.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Management and those charged with governance should consider additional training of staff or engaging other accountants to draft the financial statements.

Response:

We concur with the auditor's finding and will consider the risks and costs associated with the financial statement preparation.

June 14, 2019

To the Mayor and City Council
City of Thompson
Thompson, North Dakota

We have audited the financial statements of the governmental activities, business type activities, and each major fund of the City of Thompson for the year ended December 31, 2018, and have issued our report thereon dated June 14, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 31, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Thompson are described in Note 1 to the financial statements. As described in Note 10 to the financial statements, the City changed accounting policies related to accounting and financial reporting for other postemployment benefits by adopting Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimates include assumptions used in determining the net position liability for cost sharing defined benefit plans. We evaluated the key factors and assumptions used to determine future liabilities for defined benefit plans in determining that they are reasonable in relation to the financial statements taken as a whole. Management's estimate of its actuarially calculated pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases, and form of annuity payment upon retirement.

Management's estimate of its actuarially calculated OPEB liability is based on several factors including but not limited to, anticipated investment return rate, retirement age for active employees, and life expectancy. We evaluated the key factors and assumptions used to determine future liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We experienced no difficulties in dealing with management relating to the performance of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements included in the attachment were detected as a result of audit procedures and were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 14, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Thompson's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to budgetary comparison schedules, Schedule of Employer's Share of Net Pension Liability, Schedule of Employer's Contributions to the NDPERS, Schedule of City's Share of OPEB Liability, Schedule of City's Contributions to OPEB Plan, and notes to required supplementary information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restrictions on Use

This information is intended solely for the use of the Mayor, City Council and management of the City of Thompson and is not intended to be and should not be used by anyone other than these specified parties.



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

Client: **89802 - City of Thompson**
Engagement: **City of Thompson**
Period Ending: **12/31/2018**
Trial Balance: **TB**
Workpaper: **2205.00 - Adjusting Journal Entries Report-v2**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
To adjust funds to balance and coding of transfers				
100-100	General Fund			
100-100	General Fund			
100-100	General Fund			
100-100	General Fund			
100-100	General Fund			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-305	Surplus Unappropriated			
100-450	Miscellaneous			
100-700	Operating Transfers In			
1200	Accounts Receivable			
210-100	Cash in Bank - Highway			
210-305	Surplus Unappropriated-Highway			
330-305	Surplus Unappropriated - Sewer			
340-305	Surplus Unappropriated			
340-710	Transfers- Out			
350-305	Surplus Unapprop.-Street paving			
360-305	Fund Balance			
500-100	Cash in Bank - Sewer			
500-100	Cash in Bank - Sewer			
500-120	Accounts Recievable			
500-180	Deferred Outflows			
500-230	Deferred Inflows			
500-235	Net Pension Liability			
500-305	Surplus Unappropriated-Sewer Mx			
500-400	Sewer Mx Income			
510-100	Cash in Bank - Sanitation			
510-180	Deferred Outflows			
510-230	Deferred Inflows			
510-235	Net Pension Liability			
510-305	Surplus Unappropriated-Sanit.			
520-100	Cash in bank - Pest Control			
520-120	Accounts receivable			
520-180	Deferred Outflows			
520-230	Deferred Inflows			
520-235	Net Pension Liability			
520-305	Fund Balance			
Total			0.00	0.00
Adjusting Journal Entries JE # 2				
To adjust property tax receivable				
100-220	Deferred Revenue		980.34	
330-220	Deferred Revenue Sewer 2000-1		56,931.00	
340-220	Deferred Revenue Hiway		56,429.00	
350-220	Defer.Rev.Str. Paving 2009-1		17,053.00	
360-220	Defer.Rev. Str. Paving 2015-1		24,229.00	
100-115	Receivables - Taxes			980.34
330-120	Street Paving 2013-1 Receivable			56,931.00
340-120	Hiway 2012 Assessment Rec.			56,429.00
350-120	Street Paving 2009 Assess. Rec.			17,053.00
360-120	Highway 2015 Assess. Receivabl			24,229.00
350-107	Funds in County - Street Paving			
350-422	2009-1 Paving Project Income			
Total			155,622.34	155,622.34
Adjusting Journal Entries JE # 3				
To adust accounts receivable				
500-455	Sewer usage income		197.00	
510-450	Revenues-Sanitation		1,272.00	
520-120	Accounts receivable		384.00	
100-443	Pest Control Income			384.00
1200	Accounts Receivable			1,272.00
500-120	Accounts Recievable			197.00
100-700	Operating Transfers In			
1200	Accounts Receivable			
210-460	Street Maintenance Income			
Total			1,853.00	1,853.00

Adjusting Journal Entries JE # 4

To adjust funds to balance for coding corrections and reclassify debt payments

100-100	General Fund	63,915.00	
100-100	General Fund	5,460.00	
100-100	General Fund	19,803.00	
100-305	Surplus Unappropriated	6,160.00	
100-305	Surplus Unappropriated	9,599.00	
100-600	Principal Retirement	5,047.00	
100-609	Interest	434.00	
1200	Accounts Receivable	61,126.00	
210-305	Surplus Unappropriated-Highway	31,246.00	
210-605	Principal payments	20,489.00	
210-610	Interest payments	1,073.00	
330-305	Surplus Unappropriated - Sewer	11,354.00	
330-530	Sewer 2000-1 -Admin. Costs	687.00	
330-600	Principal Payments	70,000.00	
330-610	Interest	32,183.00	
340-600	Principal Payments	95,000.00	
340-610	Interest	23,885.00	
340-625	2012 other debt service	688.00	
350-422	2009-1 Paving Project Income	2,538.00	
350-623	2009-1 Paving Project Interest	16,264.00	
350-624	Paving project 2009-1 Principal	25,000.00	
350-625	Debt service fees	687.00	
360-305	Fund Balance	6,832.00	
360-622	Principle Paid	35,000.00	
360-623	Interest Paid	12,847.00	
360-625	Service fees	688.00	
3900	Retained Earnings	329,500.00	
520-100	Cash in bank - Pest Control	6,405.00	
100-100	General Fund		6,405.00
100-305	Surplus Unappropriated		37,345.00
100-305	Surplus Unappropriated		31,246.00
100-305	Surplus Unappropriated		14,217.00
100-447	Finance Charges-Overdue		2,538.00
100-608	Police Vehicle Expense		5,481.00
210-100	Cash in Bank - Highway		63,915.00
210-625	2015-1 Paving Project		41,546.00
210-649	Shop Bldg. Expense		21,562.00
330-624	2013-1 Paving Project		86,415.00
340-305	Surplus Unappropriated		306,100.00
340-624	2012 Str. Paving Proj.Expense		150,883.00
350-305	Surplus Unapprop.-Street paving		4,991.00
350-622	2009-1 Str. Pave. Project Exp.		33,335.00
500-100	Cash in Bank - Sewer		19,803.00
500-305	Surplus Unappropriated-Sewer Mx		9,599.00
510-100	Cash in Bank - Sanitation		5,460.00
510-305	Surplus Unappropriated-Sanit.		46,909.00
520-305	Fund Balance		6,160.00
Total		893,910.00	893,910.00

Adjusting Journal Entries JE # 5

To record 1/1/18 billing for utilities that were recorded in prior year quick books.

100-305	Surplus Unappropriated	61,972.00	
100-447	Finance Charges-Overdue	2,538.00	
100-447	Finance Charges-Overdue	1,071.00	
500-100	Cash in Bank - Sewer	17,727.00	
510-100	Cash in Bank - Sanitation	44,362.00	
520-100	Cash in bank - Pest Control	3,492.00	
100-100	General Fund		65,581.00
100-443	Pest Control Income		3,492.00
500-455	Sewer usage income		17,727.00
510-450	Revenues-Sanitation		44,362.00
Total		131,162.00	131,162.00

Adjusting Journal Entries JE # 6

4605.00

To adjust current year depreciation/accumulated depreciation.

Record aquisition of asset.

500-675	Depreciation expense	22,441.00	
520-675	Depreciation expense	1,843.00	
800-165	Machinery and Equipment	28,864.00	
800-165	Machinery and Equipment	18,544.00	
800-345	Investment in Gen. Fixed Assets	214,247.00	
500-175	Accumulated Depreciation		22,441.00
520-175	Accumulated Depreciation- Pest		1,843.00
800-175	Accumulated Depreciation - GFA		214,247.00
800-175	Accumulated Depreciation - GFA		480.00
800-345	Investment in Gen. Fixed Assets		28,864.00
800-345	Investment in Gen. Fixed Assets		18,064.00
Total		285,939.00	285,939.00

Adjusting Journal Entries JE # 7

5305.00

To record CY debt activity

900-155	Bonds Payable	25,000.00	
900-160	Notes Payable	20,489.00	
900-170	Notes Payable Police	5,047.00	
900-200	LOAN PAYABLE	70,000.00	
900-210	BOND/WARRENT PAYABLE-PAVING	95,000.00	
900-220	Bonds Payable 2013	35,000.00	
800-345	Investment in Gen. Fixed Assets		250,536.00
Total		250,536.00	250,536.00

Adjusting Journal Entries JE # 8

To adjust health insurance withholding to actual

100-216	Health Ins. whhldg	9,339.00	
100-522	Health & Life Insurance		9,339.00
Total		9,339.00	9,339.00

Adjusting Journal Entries JE # 9

To adjust payroll liabilities to actual

2100	Payroll Liabilities	5,729.00	
2100	Payroll Liabilities	116.00	
100-208	Child Support		5,845.00
Total		5,845.00	5,845.00

Adjusting Journal Entries JE # 10

To adjust retirement account to actual

100-217	Retirement Withholding	6,750.00	
100-219	PEP-Retirement	165.00	
100-521	Retirement		6,915.00
Total		6,915.00	6,915.00

Adjusting Journal Entries JE # 11

5105.01

To record accounts payable retirement PBC

100-521	Retirement	1,467.24	
210-500	Highway Expenses	162.80	
500-555	Repairs/Maintenance-Sewer	162.80	
510-616	Pest Control	162.80	
510-670	Refuse Collection	162.80	
100-205	Accounts Payable-General		1,467.24
100-205	Accounts Payable-General		162.80
210-205	Accounts Payable-Highway		162.80
500-205	ACCOUNTS PAYABLE - SEWER MAINT.		162.80
510-205	ACCOUNTS PAYABLE - SANITATION		162.80
Total		2,118.44	2,118.44

Adjusting Journal Entries JE # 12

To adjust AP/Retirement for new AP Pest Control account

100-205	Accounts Payable-General	162.80	
100-521	Retirement	162.80	
100-521	Retirement		162.80
520-205	ACCOUNTS PAYABLE - PEST CONTROL		162.80
Total		325.60	325.60

Adjusting Journal Entries JE # 13

To reverse PY accounts payable

100-205	Accounts Payable-General	13,143.00	
210-205	Accounts Payable-Highway	3,992.00	
500-205	ACCOUNTS PAYABLE - SEWER MAINT.	316.00	
500-205	ACCOUNTS PAYABLE - SEWER MAINT.	26,250.00	
510-205	ACCOUNTS PAYABLE - SANITATION	9,069.00	
100-525	Telephone		310.00
100-530	City Attorney		460.00
100-531	City Engineer		9,960.00
100-550	Publications		192.00
100-560	Office Supplies		724.00
100-610	Other Exp. - Police		997.00
100-640	Utilities/Heat -Comm. Center		500.00
210-524	Street Lighting Expense		1,941.00
210-648	Shop Building Utilities		333.00
210-650	Equip. Exp.& Repairs		840.00
210-655	Gas, Oil, Diesel Fuel		478.00
210-661	Street Maintenance Expense		400.00
500-555	Repairs/Maintenance-Sewer		39.00
500-575	Misc. - Sewer		26,250.00
500-640	Utilities Expense		277.00
510-670	Refuse Collection		9,069.00
Total		52,770.00	52,770.00

Adjusting Journal Entries JE # 14

To record accounts payable PBC

100-531	City Engineer	4,140.00	
100-550	Publications	237.60	
100-555	Repairs/Maintenance-General	84.00	

100-559	Building new construction	220.18	
100-610	Other Exp.- Police	169.98	
100-640	Utilities/Heat -Comm. Center	358.17	
210-524	Street Lighting Expense	1,919.29	
500-640	Utilities Expense	233.65	
510-670	Refuse Collection	9,283.34	
100-205	Accounts Payable-General		1,069.93
100-205	Accounts Payable-General		4,140.00
210-205	Accounts Payable-Highway		1,919.29
500-205	ACCOUNTS PAYABLE - SEWER MAINT.		233.65
510-205	ACCOUNTS PAYABLE - SANITATION		9,283.34
Total		16,646.21	16,646.21
Adjusting Journal Entries JE # 15		5210.00	
To record enterprise funds retirement expense CY change			
500-555	Repairs/Maintenance-Sewer	4,920.00	
510-616	Pest Control	542.00	
510-670	Refuse Collection	2,515.00	
500-180	Deferred Outflows		341.00
500-230	Deferred Inflows		667.00
500-235	Net Pension Liability		3,912.00
510-180	Deferred Outflows		169.00
510-230	Deferred Inflows		341.00
510-235	Net Pension Liability		2,005.00
520-180	Deferred Outflows		445.00
520-230	Deferred Inflows		79.00
520-235	Net Pension Liability		18.00
Total		7,977.00	7,977.00
Adjusting Journal Entries JE # 16			
To record voided checks PBC			
100-100	General Fund	27.00	
210-100	Cash in Bank - Highway	18.89	
100-560	Office Supplies		27.00
210-650	Equip. Exp.& Repairs		18.89
Total		45.89	45.89
Adjusting Journal Entries JE # 17			
To record OPEB for current year			
500-185	Deferred outflows OPEB	120.00	
500-305	Surplus Unappropriated-Sewer Mx	881.00	
500-575	Misc. - Sewer	79.00	
510-185	Deferred outflows OPEB	61.00	
510-305	Surplus Unappropriated-Sanit.	449.00	
510-670	Refuse Collection	41.00	
520-185	Deferred Outflows OPEB	25.00	
520-305	Fund Balance	218.00	
500-231	Deferred inflows OPEB		53.00
500-236	Net OPEB Liability		1,027.00
510-231	Deferred Inflows OPEB		27.00
510-236	Net OPEB Liability		524.00
510-616	Pest Control		19.00
520-231	Deferred inflows OPEB		11.00
520-236	Net OPEB Liability		213.00
Total		1,874.00	1,874.00
Total Adjusting Journal Entries		1,822,878.48	1,822,878.48
Total All Journal Entries		1,822,878.48	1,822,878.48