

**CITY OF WALHALLA
WALHALLA, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Walhalla
Walhalla, North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walhalla, as of and for the year ended December 31, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walhalla, as of December 31, 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 8 to the financial statements, the City's beginning net position and fund balances were restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2022, on our consideration of the City of Walhalla's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Walhalla'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 the City of Walhalla's internal control over financial reporting and compliance.



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

January 21, 2022

CITY OF WALHALLA
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash and Cash Equivalents	\$ 805,180	\$ 426,624	\$ 1,231,804
Accounts Receivable (Net)	2,705	51,461	54,166
Intergovernmental Receivable, Net	51,776	-	51,776
Taxes Receivable	14,802	-	14,802
Other Receivables	15,084	-	15,084
Notes Receivable	-	30,858	30,858
Special Assessments Receivable	726,791	-	726,791
Internal Balances	6,446	(6,446)	-
Prepaid Benefits and Insurance	5,842	3,285	9,127
Prepaid Maintenance	-	-	-
Total Current Assets	<u>1,628,626</u>	<u>505,782</u>	<u>2,134,408</u>
Notes Receivable	-	181,985	181,985
Capital Assets, Net	<u>2,403,035</u>	<u>998,047</u>	<u>3,401,082</u>
Total Noncurrent Assets	<u>2,403,035</u>	<u>1,180,032</u>	<u>3,583,067</u>
Total Assets	<u>4,031,661</u>	<u>1,685,814</u>	<u>5,717,475</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit OPEB Plan - NDPERS	3,320	3,101	6,421
Cost Sharing Defined Benefit Pension Plan - NDPERS	130,274	121,696	251,970
Deferred Loss on Refunding	9,102	-	9,102
Total Deferred Outflows of Resources	<u>142,696</u>	<u>124,797</u>	<u>267,493</u>
LIABILITIES			
Deficit in Pooled Cash and Cash Equivalents	10,358	-	10,358
Accounts Payable	3,841	34,834	38,675
Due to Others	8,066	-	8,066
Accrued Interest Payable	2,675	554	3,229
Long-Term Liabilities Due Within One Year	<u>225,573</u>	<u>46,657</u>	<u>272,230</u>
Total Current Liabilities	<u>250,513</u>	<u>82,045</u>	<u>332,558</u>
Refunding Improvement Bonds	385,000	-	385,000
Notes Payable	62,281	288,982	351,263
Bond Discounts	(2,717)	-	(2,717)
Net OPEB Liability	11,335	10,588	21,923
Net Pension Liability	258,699	241,660	500,359
Less Amounts Due within One Year	<u>(225,573)</u>	<u>(46,657)</u>	<u>(272,230)</u>
Total Noncurrent Liabilities	<u>489,025</u>	<u>494,573</u>	<u>983,598</u>
Total Liabilities	<u>739,538</u>	<u>576,618</u>	<u>1,316,156</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit OPEB Plan - NDPERS	530	496	1,026
Cost Sharing Defined Benefit Pension Plan - NDPERS	<u>30,534</u>	<u>28,524</u>	<u>59,058</u>
Total Deferred Inflows of Resources	<u>31,064</u>	<u>29,020</u>	<u>60,084</u>
NET POSITION			
Net Investment in Capital Assets	1,949,369	882,371	2,831,740
Restricted for:			
Public Works	158,105	-	158,105
Culture and Recreation	39,432	-	39,432
Library	39,007	-	39,007
Airport	180,152	-	180,152
Cemetery	14,419	-	14,419
Debt Service	713,758	-	713,758
Unrestricted	<u>309,513</u>	<u>322,602</u>	<u>632,115</u>
Total Net Position	<u>\$ 3,403,755</u>	<u>\$ 1,204,973</u>	<u>\$ 4,608,728</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating		Capital	Primary Government		Total
		Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 246,045	\$ 30,340	\$ -	\$ -	\$ (215,705)	\$ -	\$ (215,705)
Public Safety	168,177	-	-	-	(168,177)	-	(168,177)
Public Works	282,904	-	-	50,394	(232,510)	-	(232,510)
Culture and Recreation	366	-	-	-	(366)	-	(366)
Economic Development	6,444	-	-	-	(6,444)	-	(6,444)
Library	50,270	-	1,360	-	(48,910)	-	(48,910)
Airport	136,653	2,883	-	-	(133,770)	-	(133,770)
Cemetery	3,419	-	-	-	(3,419)	-	(3,419)
Interest and Fees	19,765	-	-	-	(19,765)	-	(19,765)
Total Governmental Activities	<u>914,043</u>	<u>33,223</u>	<u>1,360</u>	<u>50,394</u>	<u>(829,066)</u>	<u>-</u>	<u>(829,066)</u>
Business-type Activities:							
Water	376,892	375,333	-	-	-	(1,559)	(1,559)
Garbage and Sewer	112,185	153,430	-	-	-	41,245	41,245
Clinic	12,853	6,500	-	-	-	(6,353)	(6,353)
Community Development	51,720	2,197	-	-	-	(49,523)	(49,523)
Swimming Pool	53,487	13,803	-	-	-	(39,684)	(39,684)
Total Business-type Activities	<u>607,137</u>	<u>551,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,874)</u>	<u>(55,874)</u>
Total Primary Government	<u>\$ 1,521,180</u>	<u>\$ 584,486</u>	<u>\$ 1,360</u>	<u>\$ 50,394</u>	<u>(829,066)</u>	<u>(55,874)</u>	<u>(884,940)</u>
General Revenues:							
Property Taxes							
Property Taxes, Levied for General Purposes					145,380	-	145,380
Property Taxes, Levied for Special Purposes					88,246	-	88,246
City Sales Tax					161,001	-	161,001
Unrestricted State Aid					136,088	-	136,088
Interest					4,546	10,320	14,866
Miscellaneous Revenue					74,990	8,138	83,128
Loan Forgiveness					381,776	-	381,776
Transfers					12,333	(12,333)	-
Total General Revenues and Transfers					<u>1,004,360</u>	<u>6,125</u>	<u>1,010,485</u>
Change in Net Position					175,294	(49,749)	125,545
Net Position - Beginning					3,228,493	1,372,391	4,600,884
Prior Period Restatement - See Note 8					(32)	(117,669)	(117,701)
Net Position - Beginning As Restated					<u>3,228,461</u>	<u>1,254,722</u>	<u>4,483,183</u>
Net Position - Ending					<u>\$ 3,403,755</u>	<u>\$ 1,204,973</u>	<u>\$ 4,608,728</u>

See Notes to the Financial Statements

CITY OF WALHALLA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General	Roads and Streets	Debt Service	Airport	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 403,220	\$ 148,000	\$ -	\$ 175,214	\$ 78,746	\$ 805,180
Accounts receivable	-	-	-	2,705	-	2,705
Intergovernmental receivable	29,656	7,294	-	620	14,206	51,776
Property taxes receivable	10,526	2,811	-	-	1,465	14,802
Special assessments receivable	-	-	726,791	-	-	726,791
Due from other funds	-	-	-	1,613	6,446	8,059
Due from other sources	2,584	-	-	-	12,500	15,084
Prepaid benefits and insurance	5,720	61	-	-	61	5,842
Total Assets	<u>451,706</u>	<u>158,166</u>	<u>726,791</u>	<u>180,152</u>	<u>113,424</u>	<u>1,630,239</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES						
Liabilities						
Deficit in pooled cash and cash equivalents	-	-	10,358	-	-	10,358
Accounts payable	3,841	-	-	-	-	3,841
Due to others	8,066	-	-	-	-	8,066
Due to other funds	1,613	-	-	-	-	1,613
Total Liabilities	<u>13,520</u>	<u>-</u>	<u>10,358</u>	<u>-</u>	<u>-</u>	<u>23,878</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	10,038	2,681	-	-	1,397	14,116
Unavailable revenue - special assessments	-	-	724,268	-	-	724,268
Total Deferred Inflows of Resources	<u>10,038</u>	<u>2,681</u>	<u>724,268</u>	<u>-</u>	<u>1,397</u>	<u>738,384</u>
FUND BALANCES						
Nonspendable	5,720	61	-	-	61	5,842
Restricted	-	155,424	-	180,152	91,461	427,037
Committed - Fire	-	-	-	-	20,607	20,607
Unassigned	422,428	-	(7,835)	-	(102)	414,491
Total Fund Balances	<u>428,148</u>	<u>155,485</u>	<u>(7,835)</u>	<u>180,152</u>	<u>112,027</u>	<u>867,977</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 451,706</u>	<u>\$ 158,166</u>	<u>\$ 726,791</u>	<u>\$ 180,152</u>	<u>\$ 113,424</u>	<u>\$ 1,630,239</u>

See Notes to the Financial Statements

CITY OF WALHALLA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total Governmental Funds Balances \$ 867,977

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

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

Capital Assets	6,484,093	
Accumulated Depreciation	<u>(4,081,058)</u>	2,403,035

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

Property taxes	14,116	
Special assessments	<u>724,268</u>	738,384

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

Deferred loss on refunding	9,102	
NDPERS Pension	99,740	
NDPERS OPEB	<u>2,790</u>	111,632

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

Refunding Improvement Bonds	(385,000)	
Street Improvement Note	(62,281)	
Bond discounts	2,717	
Interest payable	(2,675)	
Net OPEB liability	(11,335)	
Net pension liability	<u>(258,699)</u>	<u>(717,273)</u>

Net Position of Governmental Activities \$ 3,403,755

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General	Roads and Streets	Debt Service	Airport	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 144,660	\$ 97	\$ 37,991	\$ 15,995	\$ 34,061	\$ 232,804
Special assessments	-	-	188,038	-	-	188,038
Sales taxes	161,001	-	-	-	-	161,001
Intergovernmental	63,054	70,058	-	2,233	2,103	137,448
Charges for services	30,340	-	-	2,883	-	33,223
Interest	3,906	-	-	640	-	4,546
Miscellaneous	397,212	53,583	-	647	5,324	456,766
Total Revenues	<u>800,173</u>	<u>123,738</u>	<u>226,029</u>	<u>22,398</u>	<u>41,488</u>	<u>1,213,826</u>
EXPENDITURES						
Current:						
General government	174,993	-	-	-	100	175,093
Public safety	164,224	-	-	-	-	164,224
Public works	-	116,052	-	-	-	116,052
Health and welfare	-	-	-	-	-	-
Culture and recreation	-	-	-	-	366	366
Economic development	5,000	-	-	-	1,444	6,444
Library	-	-	-	-	50,270	50,270
Airport	-	-	-	16,615	-	16,615
Cemetery	-	-	-	-	3,419	3,419
Capital Outlay	39,528	-	-	-	-	39,528
Debt Service:						
Principal retirement	-	-	224,682	-	-	224,682
Interest and fees	-	-	11,893	-	-	11,893
Total Expenditures	<u>383,745</u>	<u>116,052</u>	<u>236,575</u>	<u>16,615</u>	<u>55,599</u>	<u>808,586</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>416,428</u>	<u>7,686</u>	<u>(10,546)</u>	<u>5,783</u>	<u>(14,111)</u>	<u>405,240</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	137,800	-	-	-	50,982	188,782
Transfers out	(176,307)	-	-	-	(141)	(176,448)
Total other financing sources and uses	<u>(38,507)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,841</u>	<u>12,334</u>
Net Change in Fund Balances	<u>377,921</u>	<u>7,686</u>	<u>(10,546)</u>	<u>5,783</u>	<u>36,730</u>	<u>417,574</u>
Fund Balances - Beginning	7,701	147,799	2,711	174,369	110,323	442,903
Equity Transfers - See Note 8	47,526	-	-	-	(47,526)	-
Prior Period Adjustment - See Note 8	(5,000)	-	-	-	12,500	7,500
Fund Balance - Beginning, As Restated	<u>50,227</u>	<u>147,799</u>	<u>2,711</u>	<u>174,369</u>	<u>75,297</u>	<u>450,403</u>
Fund Balances - Ending	<u>\$ 428,148</u>	<u>\$ 155,485</u>	<u>\$ (7,835)</u>	<u>\$ 180,152</u>	<u>\$ 112,027</u>	<u>\$ 867,977</u>

See Notes to the Financial Statements

CITY OF WALHALLA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balances - Total Governmental Funds	\$	417,574
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital Outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.</p>		
Capital Outlays		39,528
Depreciation Expense		(310,321)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
Property Taxes		821
Special Assessments		(137,644)
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		224,682
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>		
Changes in net pension and OPEB liabilities and related deferred outflows and inflows of resources		(51,474)
Interest		<u>(7,872)</u>
Changes in Net Position	\$	<u>175,294</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Water	Garbage	Clinic	Swimming Pool	Industrial Park	Development Fund	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 82,280	\$ 282,434	\$ 9,298	\$ 6,429	\$ -	\$ 9,855	\$ 36,328	\$ 426,624
Accounts receivable (net)	35,024	16,437	-	-	-	-	-	51,461
Due from other funds	69,884	69,884	-	-	-	-	-	139,768
Prepaid expenses	2,661	180	444	-	-	-	-	3,285
Notes Receivable, Current Portion	-	-	-	-	-	22,724	8,134	30,858
Total Current Assets	<u>189,849</u>	<u>368,935</u>	<u>9,742</u>	<u>6,429</u>	<u>-</u>	<u>32,579</u>	<u>44,462</u>	<u>651,996</u>
Non-Current Assets:								
Notes receivable, net of current portion	-	-	-	-	-	150,582	31,403	181,985
Capital assets:								
Sites	-	-	-	-	818,920	-	2,500	821,420
Buildings and additions	1,986,462	-	215,398	-	-	-	-	2,201,860
Equipment	46,680	402,435	106,843	-	-	-	47,381	603,339
Vehicles	9,520	-	-	-	-	-	23,500	33,020
Less accumulated depreciation	(2,042,662)	(402,435)	(145,614)	-	-	-	(70,881)	(2,661,592)
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>176,627</u>	<u>-</u>	<u>818,920</u>	<u>150,582</u>	<u>33,903</u>	<u>1,180,032</u>
Total Assets	<u>189,849</u>	<u>368,935</u>	<u>186,369</u>	<u>6,429</u>	<u>818,920</u>	<u>183,161</u>	<u>78,365</u>	<u>1,832,028</u>
DEFERRED OUTFLOWS OF RESOURCES								
Cost Sharing Defined Benefit Pension Plan	84,533	37,163	-	-	-	-	-	121,696
Cost Sharing Defined Benefit OPEB Plan	2,154	947	-	-	-	-	-	3,101
Total Deferred Outflows of Resources	<u>86,687</u>	<u>38,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,797</u>
LIABILITIES								
Current Liabilities:								
Accounts payable	25,899	4,935	-	-	-	-	4,000	34,834
Interest payable	-	-	-	-	-	554	-	554
Due to other funds	6,445	-	50,462	89,307	-	-	-	146,214
Notes payable, current portion	-	-	23,933	-	-	22,724	-	46,657
Total Current Liabilities	<u>32,344</u>	<u>4,935</u>	<u>74,395</u>	<u>89,307</u>	<u>-</u>	<u>23,278</u>	<u>4,000</u>	<u>228,259</u>
Non-Current Liabilities:								
Notes payable, net of current portion	-	-	91,743	-	-	150,582	-	242,325
Net pension liability	167,864	73,796	-	-	-	-	-	241,660
Net OPEB liability	7,354	3,234	-	-	-	-	-	10,588
Total Non-Current Liabilities	<u>175,218</u>	<u>77,030</u>	<u>91,743</u>	<u>-</u>	<u>-</u>	<u>150,582</u>	<u>-</u>	<u>494,573</u>
Total Liabilities	<u>207,562</u>	<u>81,965</u>	<u>166,138</u>	<u>89,307</u>	<u>-</u>	<u>173,860</u>	<u>4,000</u>	<u>722,832</u>
DEFERRED INFLOWS OF RESOURCES								
Cost Sharing Defined Benefit Pension Plan	19,813	8,711	-	-	-	-	-	28,524
Cost Sharing Defined Benefit OPEB Plan	344	152	-	-	-	-	-	496
Total Deferred Inflows of Resources	<u>20,157</u>	<u>8,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,020</u>
NET POSITION								
Net Investment in Capital Assets	-	-	60,951	-	818,920	-	2,500	882,371
Unrestricted	48,817	316,217	(40,720)	(82,878)	-	9,301	71,865	322,602
Total Net Position	<u>\$ 48,817</u>	<u>\$ 316,217</u>	<u>\$ 20,231</u>	<u>\$ (82,878)</u>	<u>\$ 818,920</u>	<u>\$ 9,301</u>	<u>\$ 74,365</u>	<u>\$ 1,204,973</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Water	Garbage	Clinic	Swimming Pool	Industrial Park	Development Fund	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:								
Charges for service	\$ 375,333	\$ 153,430	\$ 6,500	\$ 13,803	\$ -	\$ -	\$ 2,197	\$ 551,263
Other	-	-	4,000	2,074	-	-	2,064	8,138
Total Operating Revenues	<u>375,333</u>	<u>153,430</u>	<u>10,500</u>	<u>15,877</u>	<u>-</u>	<u>-</u>	<u>4,261</u>	<u>559,401</u>
OPERATING EXPENSES:								
Water Utility Services	376,892	-	-	-	-	-	-	376,892
Garbage and Sewer Services	-	112,185	-	-	-	-	-	112,185
Clinic	-	-	4,237	-	-	-	-	4,237
Community Development	-	-	-	-	-	-	40,295	40,295
Swimming Pool	-	-	-	53,487	-	-	-	53,487
Depreciation	-	-	8,616	-	-	-	2,151	10,767
Total Operating Expenses	<u>376,892</u>	<u>112,185</u>	<u>12,853</u>	<u>53,487</u>	<u>-</u>	<u>-</u>	<u>42,446</u>	<u>597,863</u>
Operating Income (Loss)	<u>(1,559)</u>	<u>41,245</u>	<u>(2,353)</u>	<u>(37,610)</u>	<u>-</u>	<u>-</u>	<u>(38,185)</u>	<u>(38,462)</u>
NON-OPERATING REVENUES (EXPENSES):								
Interest income	-	-	-	-	-	10,050	270	10,320
Interest and service charges	-	-	-	-	-	(9,274)	-	(9,274)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>776</u>	<u>270</u>	<u>1,046</u>
Income (Loss) before contributions transfers	<u>(1,559)</u>	<u>41,245</u>	<u>(2,353)</u>	<u>(37,610)</u>	<u>-</u>	<u>776</u>	<u>(37,915)</u>	<u>(37,416)</u>
Transfers in	-	-	25,928	40,869	-	-	-	66,797
Transfers out	(6,000)	(6,000)	-	-	-	-	(67,130)	(79,130)
Changes in Net Position	<u>(7,559)</u>	<u>35,245</u>	<u>23,575</u>	<u>3,259</u>	<u>-</u>	<u>776</u>	<u>(105,045)</u>	<u>(49,749)</u>
Total Net Position - Beginning	57,458	389,518	(3,344)	(86,137)	818,920	8,525	187,451	1,372,391
Prior Period Adjustment - See Note 8	(1,082)	(108,546)	-	-	-	-	(8,041)	(117,669)
Total Net Position - Beginning, as Restated	<u>56,376</u>	<u>280,972</u>	<u>(3,344)</u>	<u>(86,137)</u>	<u>818,920</u>	<u>8,525</u>	<u>179,410</u>	<u>1,254,722</u>
Total Net Position - Ending	<u>\$ 48,817</u>	<u>\$ 316,217</u>	<u>\$ 20,231</u>	<u>\$ (82,878)</u>	<u>\$ 818,920</u>	<u>\$ 9,301</u>	<u>\$ 74,365</u>	<u>\$ 1,204,973</u>

See Notes to the Financial Statements

CITY OF WALHALLA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Water	Garbage	Clinic	Swimming Pool	Industrial Park	Development Fund	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from Customers and Users	\$ 366,163	\$ 167,154	\$ 6,500	\$ 13,803	\$ -	21,632	\$ 2,197	\$ 577,449
Payments to Suppliers	(210,804)	(46,374)	(5,178)	(26,246)	-	-	(16,829)	(305,431)
Payments to Employees	(160,738)	(60,461)	-	(27,241)	-	-	-	(248,440)
Other Operating Revenue	-	-	4,000	2,074	-	-	2,064	8,138
Net Cash Provided (Used) by Operating Activities	(5,379)	60,319	5,322	(37,610)	-	21,632	(12,568)	31,716
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers In	-	-	25,928	40,869	-	-	-	66,797
Transfers Out	(6,000)	(6,000)	-	-	-	-	(67,130)	(79,130)
Net Cash Provided (Used) by Noncapital Financing Activities	(6,000)	(6,000)	25,928	40,869	-	-	(67,130)	(12,333)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Principal Payments on Long-Term Debt	-	-	(25,928)	-	-	(21,632)	-	(47,560)
Interest and Fiscal Charges on Debt	-	-	-	-	-	(9,426)	-	(9,426)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(25,928)	-	-	(31,058)	-	(56,986)
CASH FLOWS FROM INVESTING ACTIVITIES								
Payments Received on Notes Receivable	-	-	-	-	-	-	5,339	5,339
Interest Income	-	-	-	-	-	10,050	270	10,320
Net Cash Provided (Used) by Investing Activities	-	-	-	-	-	10,050	5,609	15,659
Net Increase (Decrease) in Cash and Cash Equivalents	(11,379)	54,319	5,322	3,259	-	624	(74,089)	(21,944)
Cash and Cash Equivalents, January 1	93,659	228,115	3,976	3,170	-	9,231	110,417	448,568
Cash and Cash Equivalents, December 31	\$ 82,280	\$ 282,434	\$ 9,298	\$ 6,429	\$ -	\$ 9,855	\$ 36,328	\$ 426,624
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:								
Operating Income (Loss)	\$ (1,559)	\$ 41,245	\$ (2,353)	\$ (37,610)	\$ -	\$ -	\$ (38,185)	\$ (38,462)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:								
Depreciation and Amortization Expense	-	-	8,616	-	-	-	2,151	10,767
Bad Debts	-	-	-	-	-	-	19,466	19,466
Changes in Assets and Liabilities:								
Accounts/Notes Receivable	(9,170)	13,724	-	-	-	21,632	-	26,186
Prepaid Benefits	83	-	-	-	-	-	-	83
Other Prepaid Expenses	479	1,708	(10)	-	-	-	-	2,177
Deferred Pension Outflows	4,264	3,035	-	-	-	-	-	7,299
Deferred OPEB Outflows	(808)	(338)	-	-	-	-	-	(1,146)
Deficit in Pooled Cash and Cash Equivalents	-	-	-	-	-	-	-	-
Accounts Payable	(1,267)	2,321	(931)	-	-	-	4,000	4,123
Net Pension Liability	6,435	719	-	-	-	-	-	7,154
Net OPEB Liability	(142)	(160)	-	-	-	-	-	(302)
Deferred Pension Inflows	(3,526)	(1,855)	-	-	-	-	-	(5,381)
Deferred OPEB Inflows	(168)	(80)	-	-	-	-	-	(248)
Net Cash Provided (Used) by Operating Activities	\$ (5,379)	\$ 60,319	\$ 5,322	\$ (37,610)	\$ -	\$ 21,632	\$ (12,568)	\$ 31,716

See Notes to the Financial Statements

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Presentation

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

Government-wide Financial Statements

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

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

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

Fund Financial Statements

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

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

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

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

Governmental Funds

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

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

Airport Fund -The Airport Fund is used by the City to account for the revenues and expenditures associated with operating the City airport.

Proprietary Funds

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

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

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

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

Swimming Pool Fund - The Clinic Fund accounts for revenues and expenses associated with operating the City swimming pool.

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

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

Measurement Focus

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

Basis of Accounting

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

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

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

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

Encumbrance Accounting

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

Cash and Cash Equivalents

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

Prepaid Expenses

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

Capital Assets

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

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

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

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

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has two items reported on the statement of net position as *cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan* which represents actuarial differences within the NDPERS pension plans and NDPERS OPEB plan as well as amounts paid to the plans after the measurement date. See Notes 10 and 11 for more details. The City also has one item reported as *deferred loss on refunding* which is being amortized as a component of interest expenses over the life of the refunding improvement bond.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, *unavailable property taxes* and *uncertified special assessments* are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has two items reported on the statement of net position *as cost sharing defined benefit pension plan and cost sharing defined OPEB plan*, which represents the actuarial differences within the NDPERS pension plans and OPEB plan. See Notes 10 and 11 for more details.

Accrued Liabilities and Long-Term Liabilities

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

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

Bond Premiums, Discounts and Issuance Costs

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

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

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Generally, fund balance represents the difference between the current assets and current liabilities. As per GASB No. 54, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following classifications are used by the City:

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

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

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

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

Operating Revenues and Expenses

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

Pensions

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

Use of Estimates

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

NOTE 2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

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

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

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

As of December 31, 2018, the City's bank balances were \$1,242,941. Of the bank balances, \$886,206 was covered by Federal Depository Insurance. The remaining bank balances of \$356,736 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

- Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities,

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

or organizations created by an act of congress.

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

As of December 31, 2018, the City held certificates of deposit totaling \$427,578.

NOTE 3. PROPERTY TAXES

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

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

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities Capital Assets:				
Sites	\$ -	\$ -	\$ -	\$ -
Buildings	2,304,306	-	-	2,304,306
Street Paving	2,474,277	-	-	2,474,277
Heavy Equipment	426,374	-	-	426,374
Office Equipment	17,161	-	-	17,161
Vehicles	62,040	39,528	-	101,568
Airport Project	1,160,406	-	-	1,160,406
Total Gov't Activities Capital Assets	6,444,564	39,528	-	6,484,092
Accumulated Depreciation				
Buildings	1,589,655	92,172	-	1,681,827
Street Paving	1,567,042	164,952	-	1,731,994
Heavy Equipment	419,725	1,900	-	421,625
Office Equipment	16,234	927	-	17,161
Vehicles	62,040	3,953	-	65,993
Airport Project	116,041	46,416	-	162,457
Total Accumulated Depreciation	3,770,737	310,320	-	4,081,057
Net Capital Assets - Gov't Activities	\$ 2,673,827	\$ (270,792)	\$ -	\$ 2,403,035

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Depreciation was charged to governmental activities as follows:

General & Library	\$ 19,478
Public Safety	3,953
Airport	120,038
Highway	166,852
Total Depreciation Expense	\$ 310,320

	Beginning Balance	Additions	Disposals	Ending Balance
Business Type Capital Assets:				
Sites	\$ 821,420	\$ -	\$ -	\$ 821,420
Buildings	2,201,860	-	-	2,201,860
Office Equipment	603,340	-	-	603,340
Vehicles	33,020	-	-	33,020
Total Business Type Capital Assets	3,659,640	-	-	3,659,640
Accumulated Depreciation				
Sites	-	-	-	-
Buildings	2,016,618	8,616	-	2,025,234
Office Equipment	601,189	2,151	-	603,340
Vehicles	33,020	-	-	33,020
Total Accumulated Depreciation	2,650,827	10,767	-	2,661,594
Net Capital Assets - Business Type	\$ 1,008,813	\$ (10,767)	\$ -	\$ 998,046

Depreciation was charged to business-type activities as follows:

Clinic	\$ 8,616
Nonmajor Proprietary Funds	2,151
Total Depreciation Expense	\$ 10,767

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

On January 6, 2014, the City issued \$1,465,000 in Refunding Improvement Bonds of 2014 for a street improvement project. Net proceeds from the bond issue were \$1,451,815 after discounts of \$13,185. Interest accrues at an average rate of 1.81% annually on the outstanding balance. Annual principal payments range from \$190,000 to \$245,000 until maturity on May 1, 2020. The balance on December 31, 2018 was \$385,000 less an un-amortized discount of \$2,717.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

On October 23, 2014, the City borrowed \$171,462 from Choice Financial Group to finance street improvements. Interest accrues at 2.95%. The loan matures on April 1, 2020. The balance on the note on December 31, 2018 was \$62,281.

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

\$166,000 was borrowed from Choice Financial Group. Interest accrues at 6.65% less a 1.65% Interest buy down for the first 5 years. The loan matures in 2025. The balance on the note on December 31, 2018 was \$97,382.

\$149,500 was borrowed from the State of North Dakota. Interest accrues at 3.0%. Monthly payments of \$1,074 are due until the loan matures in 2025. The balance on December 31, 2018 was \$75,924.

On January 29, 2014, the City borrowed \$215,398 from United Telephone Mutual Aid Corporation to finance the renovations of the clinic. The loan does not accrue interest and matures on December 31, 2023. Monthly payments began January 31, 2015. The balance on the note on December 31, 2018 was \$115,676.

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

<u>Governmental Activities:</u>	Beginning Balance	Debt Issued	Retirements	Ending Balance	Due Within One Year
Refunding Improvement Bond	\$ 580,000	\$ -	\$ 195,000	\$ 385,000	\$ 195,000
Bond Discount	(4,874)		(2,157)	(2,717)	-
Street Improvement Note	91,963	-	29,682	62,281	30,573
Governmental Activities					
Long-Term Liabilities	<u>\$ 667,089</u>	<u>\$ -</u>	<u>\$ 222,525</u>	<u>\$ 444,564</u>	<u>\$ 225,573</u>
<u>Business-Type Activities:</u>					
Commercial Building #1	\$ 108,587	\$ -	\$ 11,205	\$ 97,382	\$ 11,965
Commercial Building #2	86,351	-	10,427	75,924	10,759
Clinic Renovation	141,604	-	25,928	115,676	23,933
Business-Type Activity					
Long-Term Liabilities	<u>\$ 336,542</u>	<u>\$ -</u>	<u>\$ 47,560</u>	<u>\$ 288,982</u>	<u>\$ 46,657</u>

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2019	\$ 195,000	\$ 6,030
2020	190,000	2,138
Total	<u>\$ 385,000</u>	<u>\$ 8,168</u>

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2019	\$ 30,573	\$ 1,853
2020	31,708	933
Total	<u>\$ 62,281</u>	<u>\$ 2,786</u>

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

Year Ending December 31,	Business-Type Activities	
	Principal	Interest
2019	\$ 46,657	\$ 8,263
2020	47,899	7,091
2021	49,120	5,871
2022	50,411	4,580
2023-25	94,895	5,308
Total	<u>\$ 288,982</u>	<u>\$ 31,113</u>

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2018, the Water Fund owes the Cemetery Fund \$6,445 for a past debt.

At December 31, 2018, the Clinic Fund owes the Water Fund \$25,231 and the Garbage and Sewer Fund \$25,231 for an infusion of cash to eliminate a deficit cash balance.

At December 31, 2018, the Swimming Pool Fund owes the Water Fund \$44,653 and the Garbage and Sewer Fund \$44,653 for an Infusion of cash to eliminate a deficit cash balance.

At December 31, 2018, the General Fund owes the Airport Fund \$1,613 for a State Aid.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7. INTERFUND OPERATING TRANSFERS

Transfers for the year ended December 31, 2018 were as follows:

Purpose	Governmental Funds		Proprietary Funds				
	General Fund	Nonmajor	Water	Garbage and Sewer	Clinic	Swimming Pool	Nonmajor
Sales tax revenue	\$ (90,469)	\$ 49,600	\$ -	\$ -	\$ -	\$ 40,869	\$ -
Close fund	67,130	-	-	-	-	-	(67,130)
Debt service	(25,928)	-	-	-	25,928	-	-
Other operating transfers	10,760	1,241	(6,000)	(6,000)	-	-	-
Total transfers (net)	<u>\$ (38,507)</u>	<u>\$ 50,841</u>	<u>\$ (6,000)</u>	<u>\$ (6,000)</u>	<u>\$ 25,928</u>	<u>\$ 40,869</u>	<u>\$ (67,130)</u>

NOTE 8. PRIOR PERIOD ADJUSTMENTS AND EQUITY TRANSFERS

The City implement 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.

Additional prior period adjustments were made to allocate utility revenue between the water fund and garbage funds for the year ending December 31, 2017 and to correct amounts reported as notes receivable and prepaid maintenance as of December 31, 2017.

Fund equity transfers were also made for general funds previously categorized as special revenue funds.

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

	Net Position				
	Water	Garbage	Proprietary Funds	Business-Type Activities	Governmental Activities
January 1, 2018, as previously reported	\$ 57,458	\$ 389,518	\$ 187,451	\$ 1,372,391	\$ 3,228,493
Utility revenue	105,529	(105,529)	-	-	-
Notes receivable	-	-	(8,041)	(8,041)	7,500
Prepaid maintenance	(99,949)	-	-	(99,949)	-
OPEB liability and related deferrals	(6,662)	(3,017)	-	(9,679)	(7,532)
Total prior period adjustments	<u>(1,082)</u>	<u>(108,546)</u>	<u>(8,041)</u>	<u>(117,669)</u>	<u>(32)</u>
January 1, 2018, restated	<u>\$ 56,376</u>	<u>\$ 280,972</u>	<u>\$ 179,410</u>	<u>\$ 1,254,722</u>	<u>\$ 3,228,461</u>

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	Fund Balance	
	General Fund	Nonmajor Governmental Funds
January 1, 2018, as previously reported	\$ 7,701	\$ 110,323
Notes receivable	(5,000)	12,500
Equity transfers	47,526	(47,526)
Total	42,526	(35,026)
January 1, 2018, restated	\$ 50,227	\$ 75,297

NOTE 9. TAX ABATEMENTS

The City has implemented the provisions of GASB Statement No. 77 - Tax Abatement Disclosures. As per this provision, governments who enter into tax abatement agreements are required to disclose brief descriptive information such as tax being abated, authority under which tax abatements are provided, eligibility criteria, mechanism by which taxes are abated, provisions for recapturing abated taxes, gross dollar amount of taxes abated and any other commitments made by the government as part of the tax abatement agreement. The City has no tax abatement agreements in effect for the year ended December 31, 2018 requiring disclosure.

NOTE 10. PENSION PLAN

North Dakota Public Employees Retirement Systems (Main System)

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

NDPERS 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.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balances

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Member and Employer Contributions

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

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

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

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

At December 31, 2018, the City reported a liability of \$500,359 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 .029649 percent which was an increase of .003705 percent from its proportion measured at June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$82,600. 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 experience	\$ 1,324	\$ (17,023)
Changes of assumptions	180,619	(7,142)
Net difference between projected and actual earnings on pension plan investments	-	(2,434)
Changes in proportion and differences between employer contributions and proportionate share of contributions	57,707	(32,459)
Employer contributions subsequent to the measurement date	<u>12,319</u>	<u>-</u>
Total	<u>\$ 251,970</u>	<u>\$ (59,058)</u>

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

\$12,319 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, 2018.

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

Year ended December 31:		
2019	\$	51,554
2020		45,216
2021		52,315
2022		27,640
2023		3,868

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	<u>Service at Beginning of Year:</u>	<u>Increase Rate</u>
	0	15.00%
	1	10.00%
	2	8.00%
	<u>Age*</u>	
	Under 36	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 services

Investment rate of return 7.75%, net of investment expenses

Cost of living adjustments None

For 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 (not set back for females) multiplied by 125%.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

	1% Decrease	Current Discount Rate	1% Increase
	5.32%	6.32%	7.32%
Employer's proportionate share of the net pension liability	\$ 679,895	\$ 500,359	\$ 350,542

Pension Plan Fiduciary Net Position

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

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit OPEB Plan

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

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

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

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

At December 31, 2018, the City reported a liability of \$21,923 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.027836 percent.

For the year ended December 31, 2018, the City recognized OPEB expense of \$3,010. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 656	\$ 453
Changes of assumptions	1,799	
Net difference between projected and actual earnings on OPEB plan investments	-	472
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,995	100
Employer contributions subsequent to the measurement date	1,972	-
Total	\$ 6,422	\$ 1,025

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

\$1,972 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, 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 ended June 30:		
2019	\$	483
2020		483
2021		483
2022		691
2023		653
2024		508
Thereafter		124

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

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

<u>Assets Class</u>	<u>Target Allocation</u>	<u>Long-Term Real Rate of</u>
Large Cap Domestic Equities	37.00%	7.15%
Small Cap Domestic Equities	9.00%	14.42%
International Equities	14.00%	8.83%
Core-plus Fixed Income	40.00%	0.10%

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net OPEB liability	\$ 27,738	\$ 21,923	\$ 16,938

NOTE 12. COMMITMENTS AND CONTINGENCIES

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 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.

NOTE 13. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Major Governmental Funds:	
Debt Service	\$7,835
Nonmajor Governmental Funds:	
Economic Development	102
Major Proprietary Funds:	
Swimming Pool	82,878
Nonmajor Proprietary Funds:	
ADM	4,000
Legion	715
Rendezvous Market	2,672

The City plans to transfer dollars from other funds to cover the deficit balances. Additionally, the debt service deficit will be replenished with future special assessment and property tax revenues.

NOTE 14. MANAGEMENT

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

NOTE 15. 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.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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 June 15, 2021. 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 of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

NOTE 16. SUBSEQUENT EVENTS

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

No other significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through January 21, 2022, which is the date these financial statements were available to be issued.

CITY OF WALHALLA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Original and Final</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 262,550	\$ 144,660	\$(117,890)
Sales Taxes	-	161,001	161,001
Intergovernmental	82,500	63,054	(19,446)
Charges for services	29,600	30,340	740
Interest	1,400	3,906	2,506
Miscellaneous	<u>7,500</u>	<u>397,212</u>	<u>389,712</u>
Total Revenues	<u>383,550</u>	<u>800,173</u>	<u>416,623</u>
EXPENDITURES			
Current:			
General government	174,150	174,993	(843)
Public safety	90,000	164,224	(74,224)
Economic development	7,500	5,000	2,500
Capital Outlay	<u>-</u>	<u>39,528</u>	<u>(39,528)</u>
Total Expenditures	<u>271,650</u>	<u>383,745</u>	<u>(112,095)</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>111,900</u>	<u>416,428</u>	<u>304,528</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	137,800	137,800
Transfers out	<u>(105,000)</u>	<u>(176,307)</u>	<u>(71,307)</u>
Total other financing sources and uses	<u>(105,000)</u>	<u>(38,507)</u>	<u>66,493</u>
Net Change in Fund Balances	<u>6,900</u>	<u>377,921</u>	<u>371,021</u>
Fund Balances - Beginning	55,227	7,701	(47,526)
Equity Transfers - See Note 8	-	47,526	47,526
Prior Period Adjustment - See Note 8	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Fund Balance - Beginning, As Restated	<u>55,227</u>	<u>50,227</u>	<u>(5,000)</u>
Fund Balances - Ending	<u>\$ 62,127</u>	<u>\$ 428,148</u>	<u>\$ 366,021</u>

See Notes to the Required Supplementary Information

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

For the Fiscal 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	0.029649%	\$ 500,359	\$ 304,589	164.27%	62.80%
2017	0.025944%	417,005	264,847	157.45%	61.98%
2016	0.024983%	243,484	251,769	96.71%	70.46%
2015	0.017632%	119,895	157,082	76.33%	77.15%

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

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

See Notes to the Required Supplementary Information

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

Fiscal 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	\$ 23,367	\$ 23,367	-	\$ 328,187	7.12%
2017	19,287	19,287	-	270,882	7.12%
2016	18,228	18,228	-	251,769	7.12%
2015	11,931	11,931	-	157,082	7.12%

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

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

See Notes to the Required Supplementary Information

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

For the Fiscal Year Ended June 30	City's proportion of the net OPEB liability (asset)	City's proportionate share of the net OPEB liability (asset)	City's covered- employee payroll	City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2018	0.027836%	\$ 21,923	\$ 328,190	6.68%	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 Notes to the Required Supplementary Information

CITY OF WALHALLA
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO OPEB PLAN
LAST 10 FISCAL YEARS

Fiscal Year Ended December 31	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered- employee payroll
2018	\$ 3,741	\$ 3,741	\$ -	\$ 328,190	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 Notes to the Required Supplementary Information

CITY OF WALHALLA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1. GENERAL BUDGET

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

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

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

During the year ended December 31, 2018, the City's expenditures exceeded appropriations in the general fund as follows:

	<u>Amount</u>	<u>Explanation</u>
General Government	\$843	Underbudgeted operating expenses
Public Safety	\$74,224	Underbudgeted operating expenses
Capital Outlay	\$39,528	Included in public safety budget

NOTE 2. CHANGE OF ASSUMPTIONS – DEFINED BENEFIT PLAN

NDPERS

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.

OPEB

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 Walhalla
Walhalla, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Walhalla as of and for the year ended December 31, 2018, and the related notes to the financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated January 21, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did find certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2018-001 through 2018-003 that we consider to be material weaknesses.

Compliance and Other Matters

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

City of Walhalla's Response to Findings

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

Purpose of this Report

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



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

January 21, 2022

CITY OF WALHALLA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding 2018-001: Segregation of Duties

Criteria

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

Condition

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

Cause

The number of personnel within the accounting department.

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

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

CITY OF WALHALLA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding 2018-002: Failure to Reconcile Balance Sheet Accounts

Criteria

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

Condition

The City failed to reconcile cash and other balance sheet accounts on a timely basis. Additionally, discrepancies were not fully investigated nor were general ledger accounts adjusted accordingly.

Effect

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

Cause

Employee turnover

Recommendation

Cash and other balance sheet accounts should be reconciled on a timely basis; any discrepancies should be fully investigated and the general ledger should be adjusted accordingly.

Views of Responsible Officials and Planned Corrective Actions

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

CITY OF WALHALLA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding 2018-003: Financial Statements

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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