

FINANCIAL STATEMENTS

**CITY OF LAKOTA
LAKOTA, NORTH DAKOTA**

For the Year Ended
DECEMBER 31, 2019

Prepared By

MORTENSON & RYGH
Certified Public Accountants
PO Box 287
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CITY OF LAKOTA, NORTH DAKOTA
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CITY OF LAKOTA, NORTH DAKOTA
CITY OFFICIALS
December 31, 2019

Tom Hess	Council Member
Dennis Mattern	Council Member
Rodney Mattern	Council Member
Kris Rainsberry	Council Member
Bill Solberg	Council Member
Jim Vasichek	Council Member

Jeff Russo	Mayor
Amie Vasichek	Auditor



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lakota, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lakota, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lakota, North Dakota, as of December 31, 2019, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Of Lakota, North Dakota's basic financial statements. The budgetary comparison information, Schedules of Employer's Share of Net Pension Liability, Schedules of Employer's Contributions - Pensions, Schedule of Employer's Share of Net OPEB Liability, Schedule of Employer's Contributions – OPEB, and Schedule of Fund Activity – Modified Cash Basis are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information, Schedules of Employer's Share of Net Pension Liability, Schedules of Employer's Contributions - Pensions, Schedule of Employer's Share of Net OPEB Liability, Schedule of Employer's Contributions – OPEB, and Schedule of Fund Activity – Modified Cash Basis are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information, Schedules of Employer's Share of Net Pension Liability, Schedules of Employer's Contributions - Pensions, Schedule of Employer's Share of Net OPEB Liability, Schedule of Employer's Contributions – OPEB, and Schedule of Fund Activity – Modified Cash Basis are fairly stated, in all material respects, in relation to the modified cash basis financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mortenson & Rygh

Hurt, Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

December 31, 2020

CITY OF LAKOTA, NORTH DAKOTA
Statement of Net Position – Modified Cash Basis
December 31, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 636,631	\$ 1,422,885	\$ 2,059,516
Materials Inventory	-	25,747	25,747
Total Current Assets	636,631	1,448,632	2,085,263
CAPITAL ASSETS			
Capital Assets net of Accumulated Depreciation	6,792,913	4,543,256	11,336,168
Total Capital Assets	6,792,913	4,543,256	11,336,168
OTHER ASSETS			
Certificate of Deposits Reserved for Debt Service	-	550,049	550,049
Total Other Assets	-	550,049	550,049
Total Assets	<u>\$ 7,429,543</u>	<u>\$ 6,541,937</u>	<u>\$ 13,971,481</u>
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES			
Customer Deposits	\$ 4,275	\$ 23,983	\$ 28,258
Current Maturity on Long Term Debt	191,589	100,810	292,399
Total Current Liabilities	195,864	124,793	320,657
NON CURRENT LIABILITIES			
Bonds Payable	3,409,397	2,187,345	5,596,743
Notes Payable	-	29,750	29,750
Less: Current Maturities on Long Term Debt	(191,589)	(100,810)	(292,399)
Total Non Current Liabilities	3,217,808	2,116,285	5,334,094
Total Liabilities	3,413,672	2,241,078	5,654,751
NET POSITION			
Net investment in Capital Assets	3,383,515	2,326,161	5,709,676
Restricted For:			
Debt Service	-	584,286	584,286
Economic Development	316,757	-	316,757
Infrastructure	237,394	-	237,394
Equipment Replacement	-	16,747	16,747
Other	124,069	-	124,069
Unrestricted	(45,865)	1,373,665	1,327,800
Total Net Position	4,015,870	4,300,859	8,316,730
Total Liabilities & Net Position	<u>\$ 7,429,543</u>	<u>\$ 6,541,937</u>	<u>\$ 13,971,481</u>

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2019

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Government Activities:							
General Government	\$ 124,826	\$ 8,337	\$ -	\$ -	\$ (116,489)	\$ -	\$ (116,489)
Public Safety	27,821	-	-	-	(27,821)	-	(27,821)
Public Service	440,098	7,927	75,540	85,510	(271,121)	-	(271,121)
Parks, Recreation & Cemetery	43,901	-	6,408	-	(37,493)	-	(37,493)
Interest Expense	42,006	-	-	-	(42,006)	-	(42,006)
Total Government Activities	678,652	16,264	81,948	85,510	(494,930)	-	(494,930)
Business Type Activities:							
Utility Systems	1,295,719	1,741,508	-	362,259	-	808,049	808,049
Other	89,771	72,341	-	-	-	(17,430)	(17,430)
Interest Expense	86,924	-	-	-	-	(86,924)	(86,924)
Total Business Type Activities	1,472,413	1,813,849	-	362,259	-	703,695	703,695
Total Primary Government	\$ 2,151,065	\$ 1,830,113	\$ 81,948	\$ 447,769	\$ (494,930)	\$ 703,695	\$ 208,765
General Receipts:							
Property Taxes Levies for:							
General Purposes					\$ 130,255	\$ -	\$ 130,255
Special Assessments					131,621	25,855	157,476
Sales & Lodging Tax					88,489	-	88,489
Other Taxes					-	819	819
Federal & State Aid not restricted to special purposes					55,459	-	55,459
Earnings on Investments					6,286	31,122	37,407
Other Receipts					64,505	1,200	65,705
Total General Receipts					\$ 476,615	\$ 58,995	\$ 535,610
Transfers To & From Other Funds					57,010	(57,010)	-
Change in Net Position					38,695	705,680	744,375
Net Position - January 1					3,977,174	3,595,179	6,761,457
Net Position - December 31					\$ 4,015,870	\$ 4,300,859	\$ 8,316,730

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

CITY OF LAKOTA, NORTH DAKOTA
Balance Sheet – Modified Cash Basis
Governmental Funds
December 31, 2019

	Major Funds					Total Gov't. Funds
	General Fund	Special Street Fund	Sales & Lodging Tax Funds	Debt Service Fund	Other Gov't Funds	
ASSETS:						
CURRENT ASSETS						
Cash & Cash Equivalents	\$ 75,687	\$ -	\$ 445,615	\$ -	\$ 115,328	\$ 636,631
Total Current Assets	75,687	-	445,615	-	115,328	636,631
OTHER ASSETS						
Internal Balances	-	-	108,535	(108,535)	-	-
Total Other Assets & Debits	-	-	108,535	(108,535)	-	-
Total Assets	\$ 75,687	\$ -	\$ 554,151	\$ (108,535)	\$ 115,328	\$ 636,631
LIABILITIES AND FUND BALANCE:						
CURRENT LIABILITIES						
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 4,275	\$ 4,275
Total Current Liabilities	\$ -	\$ -	\$ -	\$ -	\$ 4,275	\$ 4,275
FUND BALANCES						
Restricted For						
Economic Development	-	-	316,757	-	-	316,757
Infrastructure	-	-	237,394	-	-	237,394
Other	12,941	-	-	-	111,128	124,069
Unassigned, Reported In						
General Fund	62,746	-	-	-	-	62,746
Negative Fund Balances	-	-	-	(108,535)	(75)	(108,610)
Total Fund Balance	75,687	-	554,151	(108,535)	111,053	632,356
Total Liabilities & Fund Balance	\$ 75,687	\$ -	\$ 554,151	\$ (108,535)	\$ 115,328	\$ 636,631

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

CITY OF LAKOTA, NORTH DAKOTA
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position
Modified Cash Basis
December 31, 2019

Total <i>Fund Balance</i> for Governmental Funds	\$	632,356
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Total *net position* reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	9,173,302	
Less: Accumulated Depreciation	<u>(2,380,390)</u>	
Net Capital Assets		6,792,912

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

Bonds Payable	<u>(3,409,398)</u>	
Total Long-Term Liabilities		(3,409,398)

Total Net Position - Governmental Activities	\$	<u><u>4,015,870</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Fund Balance -
Modified Cash Basis
Governmental Funds
December 31, 2019

	Major Funds					Total Gov'l. Funds
	General Fund	Special Street Fund	Sales & Lodging Tax Funds	Debt Service Fund	Other Gov'l. Funds	
Receipts:						
Property Taxes	\$ 104,985	\$ 2,735	\$ 88,489	\$ 2,914	\$ 19,621	\$ 218,744
Special Assessments	-	-	-	131,621	-	131,621
Licenses & Permits	7,837	-	-	-	500	8,337
Intergovernmental Sources	55,459	52,704	5,000	-	80,510	193,673
Charges for Services	-	7,927	-	-	-	7,927
Earnings on Investments	1,727	-	4,137	45	377	6,286
Other Local Sources	6,988	4,327	50	-	82,386	93,750
Total Receipts	176,996	67,692	97,676	134,579	183,393	660,337
Disbursements:						
Current:						
General Government	101,316	-	-	-	-	101,316
Public Safety	27,821	-	-	-	-	27,821
Public Service	3,851	127,245	55,080	-	116,566	302,742
Parks, Recreation & Cemetery	-	-	-	-	43,449	43,449
Capital Outlay	-	905,020	28,833	23,510	71,938	1,029,301
Debt Service:						
Debt Principle Paid	-	-	-	212,212	-	212,212
Interest Expense	-	-	-	42,006	-	42,006
Total Expenditures	132,987	1,032,265	83,913	277,728	231,953	1,758,847
Excess Receipts over (under) Disbursements	44,009	(964,573)	13,763	(143,149)	(48,560)	(1,098,509)
Other Financing Sources (Uses)						
Debt Proceeds	-	862,231	-	-	-	862,231
Interfund Transfers In	149,684	91,201	-	-	67,520	308,404
Interfund Transfers (Out)	(167,026)	-	-	(26,000)	(58,368)	(251,394)
Net Change in Fund Balance	\$ 26,666	\$ (11,141)	\$ 13,763	\$ (169,149)	\$ (39,408)	\$ (179,268)
Fund Balance - January 1	49,021	11,141	540,388	60,613	150,461	811,624
Fund Balance - December 31	\$ 75,687	\$ 0	\$ 554,151	\$ (108,535)	\$ 111,053	\$ 632,356

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

CITY OF LAKOTA, NORTH DAKOTA
Reconciliation of Governmental Funds Statement of Receipts, Disbursements and Changes
in Fund Balance to Statement of Activities – Modified Cash Basis
December 31, 2019

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

Net change in Fund Balance - Governmental Funds **\$ (179,268)**

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

Capital Asset Additions	1,004,262
Current Year Depreciation Expense	(136,279)

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

Debt principal paid during the year	212,212
Debt proceeds received during the year	(862,231)

Change in Net Position of Governmental Activities **\$ 38,695**

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Net Position - Modified Cash Basis
Enterprise Funds
December 31, 2019

	Business-Type Activities - Enterprise Funds				Total
	Electric Fund	Water Fund	Sewer Fund	Other Funds	
ASSETS:					
CURRENT ASSETS					
Cash & Cash Equivalents	\$ 1,015,522	\$ 244,839	\$ 136,932	\$ 25,592	\$ 1,422,885
Materials Inventory	18,536	7,211	-	-	25,747
Total Current Assets	<u>1,034,057</u>	<u>252,050</u>	<u>136,932</u>	<u>25,592</u>	<u>1,448,632</u>
NONCURRENT ASSETS					
Capital Assets net of					
Accumulated Depreciation	553,424	2,719,956	1,049,484	220,391	4,543,256
Certificates of Deposit reserved for debt service	192,143	357,907	-	-	550,049
Total Noncurrent Assets	<u>745,567</u>	<u>3,077,863</u>	<u>1,049,484</u>	<u>220,391</u>	<u>5,093,305</u>
Total Assets	<u>\$ 1,779,624</u>	<u>\$ 3,329,913</u>	<u>\$ 1,186,417</u>	<u>\$ 245,984</u>	<u>\$ 6,541,937</u>
LIABILITIES AND NET POSITION:					
CURRENT LIABILITIES					
Customer Deposits	\$ 23,983	\$ -	\$ -	\$ -	\$ 23,983
Current Portion of Long Term Debt	-	82,810	18,000	-	100,810
Total Current Liabilities	<u>23,983</u>	<u>82,810</u>	<u>18,000</u>	<u>(0)</u>	<u>124,793</u>
NON CURRENT LIABILITIES					
Bonds Payable	-	2,102,345	85,000	-	2,187,345
Note Payable	-	29,750	-	-	29,750
Less Current Portion	-	(82,810)	(18,000)	-	(100,810)
Total Non Current Liabilities	<u>-</u>	<u>2,049,285</u>	<u>67,000</u>	<u>-</u>	<u>2,116,285</u>
Total Liabilities	<u>23,983</u>	<u>2,132,095</u>	<u>85,000</u>	<u>(0)</u>	<u>2,241,078</u>
NET POSITION					
Net Investment in Capital Assets	553,424	587,861	964,484	220,391	2,326,161
Restricted for Debt Service	192,143	357,907	34,237	-	584,286
Restricted for Equipment Replacement	-	16,747	-	-	16,747
Unrestricted	<u>1,010,074</u>	<u>235,303</u>	<u>102,696</u>	<u>25,592</u>	<u>1,373,665</u>
Total Net Position	<u>1,755,641</u>	<u>1,197,818</u>	<u>1,101,417</u>	<u>245,984</u>	<u>4,300,859</u>
Total Liabilities & Net Position	<u>\$ 1,779,624</u>	<u>\$ 3,329,913</u>	<u>\$ 1,186,417</u>	<u>\$ 245,984</u>	<u>\$ 6,541,937</u>

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Receipts, Disbursements and Changes in Net Position – Modified Cash Basis
Enterprise Funds
December 31, 2019

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Receipts:					
Utility Sales	\$ 1,296,021	\$ 249,363	\$ 91,191	\$ 100,199	\$ 1,736,775
Other Charges for Services	400	3,077	1,257	72,341	77,074
Other Sources	-	1,000	200	-	1,200
Total Receipts	1,296,421	253,440	92,648	172,540	1,815,049
Operating Disbursements:					
Salaries & Benefits	83,534	45,675	17,429	36,808	183,446
Operational Disbursements	718,614	59,689	38,849	144,147	961,299
Depreciation	72,469	94,722	63,690	9,863	240,744
Total Operating Disbursements	874,618	200,086	119,968	190,818	1,385,489
Net Operating Income	\$ 421,804	\$ 53,354	\$ (27,320)	\$ (18,278)	\$ 429,560
Non-Operating Receipts (Disbursements)					
Earnings on Investments	28,376	2,666	80	0	31,122
Special Assessments	-	-	25,855	-	25,855
Capital Grants	-	362,259	-	-	362,259
Interest Expense	-	(83,577)	(3,018)	(329)	(86,924)
Income (Loss) Before Transfers	450,180	334,701	(3,584)	(18,607)	762,690
Interfund Transfers In	4,073	27,590	26,699	30,057	88,418
Interfund Transfers (Out)	(122,622)	(22,806)	-	-	(145,428)
Change in Net Position	\$ 331,630	\$ 339,485	\$ 23,114	\$ 11,450	\$ 705,680
Net Position - January 1	1,424,011	858,332	1,078,302	234,534	3,595,179
Net Position - December 31	\$ 1,755,641	\$ 1,197,818	\$ 1,101,417	\$ 245,984	\$ 4,300,859

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

CITY OF LAKOTA, NORTH DAKOTA
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
December 31, 2019

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$ 1,296,421	\$ 252,440	\$ 92,448	\$ 172,540	\$ 1,813,849
Payments to Employees	(83,534)	(45,675)	(17,429)	(36,808)	(183,446)
Payments to Suppliers	(717,814)	(59,689)	(38,849)	(144,147)	(960,498)
Other Receipts	-	1,000	200	-	1,200
Total Cash Flows from Operating Activities	495,073	148,076	36,370	(8,414)	671,105
Cash Flows from Noncapital					
Financing Activities					
Transfers In	4,073	27,590	26,699	30,057	88,418
Special Assessments	-	-	26,673	-	26,673
Transfers (Out)	(122,622)	(22,806)	-	-	(145,428)
(Inc.)/Decrease in Internal Balances	24,000	(6,000)	(6,000)	-	12,000
Total Cash Flows from Noncapital Financing Activities	(94,550)	(1,216)	47,372	30,057	(18,337)
Cash Flows from Capital and Related					
Financing Activities					
Grant Proceeds Received	-	362,259	-	-	362,259
Purchases of Capital Assets	-	(598,953)	(0)	(7,126)	(606,080)
Principal Payments on Bonds	-	(63,099)	(17,000)	-	(80,099)
Principal Payments on Notes Payable	-	0	-	(12,035)	(12,035)
Interest on Debt	-	(83,577)	(3,018)	(329)	(86,924)
Total Cash Flows from Capital and Financing Activities	-	(383,370)	(20,018)	(19,491)	(422,878)
Cash Flows From Investing Activities					
Investment in Certificate of Deposit	(11,403)	(12,704)	-	-	(24,106)
Earnings on Investments	28,376	2,666	80	0	31,122
Total Cash Flows From Investing Activities	16,974	(10,038)	80	0	7,015
Net Increase (Decrease) in Cash & Cash Equivalents	417,496	(246,548)	63,804	2,152	236,905
Cash and Cash Equivalents - January 1	598,025	491,387	73,128	23,440	1,185,980
Cash and Cash Equivalents - December 31	<u>\$ 1,015,522</u>	<u>\$ 244,839</u>	<u>\$ 136,932</u>	<u>\$ 25,592</u>	<u>\$ 1,422,885</u>
Reconciliation of Operating Income to Net					
Cash Provided by Operating Activities					
Operating Income (Loss)	421,804	53,354	(27,320)	(18,278)	429,560
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	72,469	94,722	63,690	9,863	240,744
Inc./(Decrease) in Deposits Payable	800	-	-	-	800
Total Adjustments	<u>\$ 73,269</u>	<u>\$ 94,722</u>	<u>\$ 63,690</u>	<u>\$ 9,863</u>	<u>\$ 241,544</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 495,073</u>	<u>\$ 148,076</u>	<u>\$ 36,370</u>	<u>\$ (8,414)</u>	<u>\$ 671,105</u>

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Financial Statements
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Lakota, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Lakota. For financial reporting purposes, the City of Lakota's primary government includes all funds, account groups, elected officials, departments, boards, commissions, and authorities that make up the city's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14 "The Financial Reporting Entity". The criteria includes appointing a voting majority of an organization's governing board and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Lakota.

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

BLENDDED COMPONENT UNITS – None

DISCRETELY PRESENTED COMPONENT UNITS - None

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

The city reports the following major governmental funds:

Governmental Funds:

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

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

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

Debt Service Funds - This fund is used to account for the collection of special assessments designated to service bonds outstanding. Tax revenue received in this fund is restricted for payment of principal and interest on debt.

Proprietary funds:

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

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

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

Measurement Focus

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

a) Governmental funds utilize a "current financial resources". Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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

Basis of Accounting

In the government-wide statement of net position and statement of activities and the fund financial statements, governmental, and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions in the government-wide statements and proprietary fund statements, with a provision for depreciation in the government-wide statements, and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

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

D. Cash and Cash Equivalents

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

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

E. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of five

years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

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

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

F. Long-Term Obligations

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

G. Fund Balances and Net Position

Government-wide Financial Statements

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

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

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

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

Fund Financial Statement

Beginning with fiscal year 2011, the City implemented GASB Statement 54, Fund Balance Reporting in Governmental Fund Types Definitions. The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance

resources and the extent to which the City is bound to honor them. The City first determines and reports non-spendable balances, then restricted, then committed, and so forth. The City's governmental fund balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

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

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

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

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

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

H. Interfund Transactions

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

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

I. Use of Estimates in Preparing Financial Statements

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

NOTE 2 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The City's governing board did not amend the budget during 2019.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

State statutes authorize the City to invest in:

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

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

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

B. Investments

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

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

At year ended December 31, 2019, the City's carrying amount of deposits and CDs totaled \$2,609,565 and the bank balances totaled \$2,628,681. Of the bank balances, \$500,034 was covered by Federal Depository Insurance. The remaining bank balances totaling \$2,128,647 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 ACCOUNTS RECEIVABLE

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

NOTE 5 INVENTORIES

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

NOTE 6 CAPITAL ASSETS

The following are summaries of changes in capital assets, governmental activities, for the year ended December 31, 2019:

Governmental Activities	Balance 1/1/2019	Additions	(Dipsosals)	Balance 12/31/2019
Capital assets not being depreciated				
Construction in Progress	\$ 2,751,789	\$ 936,846	\$ -	\$ 3,688,635
Total capital assets not being depreciated	<u>2,751,789</u>	<u>936,846</u>	<u>-</u>	<u>3,688,635</u>
Capital assets being depreciated				
Building & Improvements	\$ 1,740,489	\$ 28,833	\$ -	\$ 1,769,322
Infrastructure	3,274,915	-	-	3,274,915
Equipment	401,847	38,583	-	440,430
Total capital assets being depreciated	<u>\$ 5,417,251</u>	<u>\$ 67,416</u>	<u>\$ -</u>	<u>\$ 5,484,667</u>
Less: accumulated depreciation				
Buildings & Improvements	(546,580)	(47,235)	-	(593,815)
Infrastructure	(1,369,841)	(76,840)	-	(1,446,681)
Equipment	(327,690)	(12,204)	-	(339,894)
Total accumulated depreciation	<u>\$ (2,244,111)</u>	<u>\$ (136,279)</u>	<u>\$ -</u>	<u>\$ (2,380,390)</u>
Net capital assets being depreciated, Net	<u>3,173,140</u>	<u>(68,863)</u>	<u>-</u>	<u>3,104,277</u>
Governmental activities capital assets, Net	<u>\$ 5,924,929</u>	<u>\$ 867,983</u>	<u>\$ -</u>	<u>\$ 6,792,912</u>

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

Governmental Activities	
Public Service	\$ 135,827
Parks, Recreation, Cemetery	<u>452</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 136,279</u>

The following are summaries of changes in capital assets, business-type activities, for the year ended December 31, 2019:

Business-Type Activities	Balance 1/1/2019	Additions	(Disposals)	Balance 12/31/2019
Non-depreciated assets				
Land	\$ 17,045	\$ -	\$ -	\$ 17,045
Construction in Progress	371,856	598,243	-	970,099
Total non-depreciated assets	<u>\$ 388,901</u>	<u>\$ 598,243</u>	<u>\$ -</u>	<u>\$ 987,144</u>
Capital assets being depreciated				
Electric Utility	\$ 2,205,114	\$ -	\$ -	\$ 2,205,114
Water Utility	4,064,630	-	-	4,064,630
Sewer Utility	2,151,921	-	-	2,151,921
Golf Course	330,719	7,126	-	337,845
Total capital assets being depreciated	<u>\$ 8,752,384</u>	<u>\$ 7,126</u>	<u>\$ -</u>	<u>\$ 8,759,510</u>
Less: accumulated depreciation				
Electric Utility	\$ (1,581,220)	\$ (72,469)	\$ -	\$ (1,653,689)
Water Utility	(2,235,095)	(94,722)	-	(2,329,817)
Sewer Utility	(1,038,747)	(63,690)	-	(1,102,437)
Golf Course	(107,590)	(9,863)	-	(117,453)
Total accumulated depreciation	<u>\$ (4,962,652)</u>	<u>\$ (240,744)</u>	<u>\$ -</u>	<u>\$ (5,203,396)</u>
Total capital assets being depreciated, Net	<u>3,789,732</u>	<u>(233,618)</u>	<u>-</u>	<u>3,556,114</u>
Total Business-Type activities, Net	<u>\$ 4,178,632</u>	<u>\$ 364,625</u>	<u>\$ -</u>	<u>\$ 4,543,258</u>

NOTE 7 DUE TO/FROM OTHER FUNDS

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

At year ended December 31, 2019 an interfund receivable of \$108,535 was reported in the debt service fund. The amount is a timing difference between debt service obligations and tax receipts. The interfund receivable is expected to be paid back with future tax revenues.

The following is a summary of interfund balances:

Governmental Activities	January 1, 2019			December 31, 2019		
	Due (To) From Other Funds	Increase	Decrease	Due (To) From Other Funds		
General	\$ -	\$ -	\$ -	\$ -	\$ -	-
Highway Fund	(12,000)	-	12,000	-	-	-
Sales Tax Fund	-	108,535	-	-	108,535	-
Debt Service Fund	-	(108,535)	-	-	(108,535)	-
Total Governmental Activities	\$ (12,000)	\$ -	\$ 12,000	\$ -	\$ -	-
Business-Type Activities						
Electric Fund	\$ 24,000	\$ -	(24,000)	\$ -	-	-
Water	(6,000)	-	6,000	-	-	-
Sewer	(6,000)	-	6,000	-	-	-
Total Business Type Activities	\$ 12,000	\$ -	\$ (12,000)	\$ -	\$ -	-

NOTE 8 PENSION PLAN

Because the City reports its financial statements on the modified cash basis, as described in Note 1, the net pension liability and related deferred inflows and outflows are not required to be reported in the basic financial statements. The following information is for informational purposes.

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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, 2019, the Employer reported a liability of \$196,557 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019, the Employer's proportion was 0.016770 percent, which was a decrease of 0.005888 percent from its proportion measured as of June 30, 2018.

For the year December 31, 2019, the Employer's accrual basis pension expense was \$38,102. At December 31, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 116	\$ 35,671
Changes of assumptions	73,448	63,061
Net difference between projected and actual earnings on pension plan investments	3,424	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	32,144	62,054
*Employer contributions subsequent to the measurement date of June 30, 2019	6,941	-
Total	<u>\$ 116,073</u>	<u>\$ 160,786</u>

*\$6,941 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

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

Year ended December 31:	
2020	\$ 8,540
2021	(9,002)
2022	(14,046)
2023	(28,332)
2024	(8,814)
Thereafter	-
Total	<u>\$ (51,654)</u>

Actuarial Assumption

The total pension liability in the June 30, 2019 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 30	10.00%
	30-39	7.50%
	40-49	6.75%
50-59	6.50%	
60+	5.25%	
Investment rate of return	7.50%, net of investment expenses	
Cost-of-living adjustments	None	

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.30%
International Equity	21%	6.93%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
Global Real Estate	19%	5.41%
Cash Equivalents	0%	0.25%

Discount Rate

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

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to

be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension liability	281,820	196,557	124,921

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

As of December 31, 2019, the city had no accrued liability for wages attributable to the fiscal year ended December 31, 2019.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS

Because the City reports its financial statements on the modified cash basis, as described in Note 1, the net other post employment benefit liability and related deferred inflows and outflows are not required to be reported in the basic financial statements. The following information is for informational purposes.

Summary of Significant Accounting Policies

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

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers

members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. . Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

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

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

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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, 2019, the Employer reported a liability of \$12,556 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019, the Employer's proportion was 0.0015633 percent, which was a decrease of 0.005640 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Employer's accrual basis OPEB expense was \$1,456. At December 31, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 311	\$ 392
Changes of assumptions	1,496	-
Net difference between projected and actual earnings on pension plan investments	14	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	894	2,733
*Employer contributions subsequent to the measurement date of June 30, 2019	1,111	-
Total	\$ 3,826	\$ 3,125

*\$1,111 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020.

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

Year ended December 31:

2020	\$ (39)
2021	(39)
2022	78
2023	56
2024	(85)
Thereafter	(381)
Total	\$ (410)

Actuarial assumptions

The total OPEB liability in the July 1, 2019 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	7.25%, 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Lg Cap Domestic Equities	33%	7.31%
Sm Cap Domestic Equities	6%	10.40%
International Equities	21%	7.32%
U.S. High Yield	4%	6.13%
Emerging Markets Debt	4%	7.45%
Core-Plus Fixed Income	32%	4.26%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25%. 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, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net pension liability	16,026	12,556	9,586

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

As of December 31, 2019, the City had no accrued payable for wages attributable to the fiscal year ended December 31, 2019

NOTE 10 COMPENSATED ABSENCES

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

NOTE 11 LONG-TERM LIABILITIES

During the year ended December 31, 2019, the following changes occurred in long-term liabilities of the city:

	Balance 01/01/19	Increases	Decreases	Balance 12/31/19	Due Within One Year
Governmental Activities					
Special Assessments	\$ 2,759,378	\$ 862,231	\$ (212,212)	\$ 3,409,398	\$ 191,589
Other Debt	-	-	-	-	-
Total Governmental Activities	\$ 2,759,378	\$ 862,231	\$ (212,212)	\$ 3,409,398	\$ 191,589
Business-Type Activities					
Revenue Bonds	\$ 2,273,454	\$ -	\$ (86,109)	\$ 2,187,345	\$ 95,009
Other Debt	41,785	-	(12,035)	29,750	5,801
Total Business-Type Activities	\$ 2,309,229	\$ -	\$ (98,144)	\$ 2,217,095	\$ 100,812

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

Definitive Improvement Warrant, Series 2018

Authorized issue amount of \$4,160,000, of which \$3,409,398 has been advanced. The warrants are due to the Bank of North Dakota over twenty years to maturity on June 1, 2038 at an interest rate of 2.0%. Principal and interest payments of \$254,218 are due annually.

3,409,398

Total special assessment bonds

\$3,409,398

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

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

Wastewater Treatment Assessment Warrant, Series 2006

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

\$85,000

Water Revenue Bonds of 98, 98-2

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

\$327,996

Water Revenue Refunding Bonds, Series 2012

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

\$845,000

Water Treatment Plant Revenue Bonds, Series 2017

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

\$328,349

Water Revenue Bond of 2018

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

\$601,000

Total Enterprise Revenue Bonds

\$2,187,345

Governmental and business-type activities debt service requirements to maturity at December 31, 2019, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Special Assessment		Revenue Bonds	
	Principal	Interest	Principal	Interest
2020	\$ 191,589	\$ 62,629	\$ 95,009	\$ 66,294
2021	177,993	76,225	95,765	64,217
2022	181,553	72,665	96,531	61,870
2023	185,184	69,034	102,306	59,499
2024	188,888	65,330	98,192	56,994
2025 - 2029	1,002,639	268,451	403,827	243,296
2030 - 2034	1,106,994	164,096	413,090	175,925
2035 - 2039	967,993	48,879	309,608	102,251
2040 - 2044	-	-	121,945	72,060
2045 - 2049	-	-	139,083	54,922
2050 - 2054	-	-	158,765	35,240
2055 - 2059	-	-	153,223	12,851
Total	<u>\$ 4,002,833</u>	<u>\$ 827,309</u>	<u>\$ 2,187,344</u>	<u>\$ 1,005,419</u>

NOTE 12 OTHER DEBT PAYABLE

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

Business Type Activities:

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

\$ 0

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

29,750

Total Other Debt

\$ 29,750

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

Year Ending December 31	Business-Type Activities	
	Other Debt	
	Principal	Interest
2020	\$ 5,801	\$ 1,699
2021	3,032	718
2022	3,122	621
2023	3,216	534
2024	3,313	437
2025 - 2029	11,267	704
Total	<u>\$ 29,751</u>	<u>\$ 4,713</u>

NOTE 13 RISK MANAGEMENT

The City of Lakota is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRIF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence. The City of Lakota also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Lakota pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and

Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding fund currently provides the City of Lakota with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 14 PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 15 TAX ABATEMENTS

Nelson County and certain political subdivisions within the county can negotiate property tax abatement agreements with the individuals and various businesses. Nelson County has the following types of tax abatement and tax exemption agreements with various individuals and commercial entities at December 31, 2019.

New or Expanding Business Exemption under NDCC Ch. 40-57.1, provides property tax abatements by assisting in establishing industrial plants, expanding, and retaining existing businesses. A property tax exemption allows for the property to be excluded for up to five years. The property must have prior certification as a primary sector business by the ND Commerce Department. A partial or complete exemption from ad valorem taxation under this section for retail sector projects may receive a partial or complete exemption from the governing body of the city or county.

Public Charity Exemption: Public charities are eligible for property tax exemption if they meet state requirements at NDCC-57-02-08 (8). All buildings belonging to institutions of public charity, including public hospitals and nursing homes licensed pursuant to section 23-16-01 under the control of religious or charitable institutions, used wholly or in part for public charity, together with the land actually occupied by such institutions not leased or otherwise used with a view to profit. The exemption provided by this subsection includes any dormitory, dwelling, or residential-type structure, together with necessary land on which such structure is located, owned by a religious or charitable organization recognized as tax exempt under section 501(c)(3) of the United States Internal Revenue Code which is occupied by members of said organization who are subject to a religious vow of poverty and devote and donate substantially all of their time to the religious or charitable activities of the owner.

Property Tax Exemption of Improvements to Buildings: Improvements to commercial and residential buildings and structures as defined in NDCC 57-02.2-03 may be exempt from assessment and taxation for up to five years from the date of commencement of making the improvements, if the exemption is approved by the governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits.

Property Tax Exemption for Builders of Certain New Single-Family Residential Properties. N.D.C.C. § 57-02-08(35) provides a discretionary exemption for certain new single-family residential properties from property taxes for the taxable year in which construction began and the next two taxable years, if the property remains owned and occupied for the first time, and other conditions are met. Up to one hundred fifty thousand dollars of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated is eligible for consideration.

Various businesses and individuals located in Nelson County have received property tax abatements and/or exemptions under the above programs. The value of these abatements and exemptions are currently not calculated by the county, so the resulting reduction to the City's property tax revenues could not be determined.

NOTE 16 TRANSFERS

The operating transfers were as follows:

Fund	In	Out
General	\$ 149,684	\$ (167,026)
Highway Fund	91,201	-
Community Building Fund	16,378	-
Library Fund	20,757	-
Swimming Pool Fund	26,879	-
Cemetery Fund	30	-
Airport Authority Fund	3,475	-
Building Fund	-	(49,416)
Advertising	-	(1,816)
Economic Development	-	(7,137)
City Share of Specials	-	(26,000)
Electric Fund	4,073	(122,622)
Water	27,590	(22,806)
Sewer	26,699	-
Golf Course Fund	30,057	-
	<u>\$ 396,823</u>	<u>\$ (396,823)</u>

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

NOTE 17 OPERATING LEASE COMMITMENTS

The City entered into an agreement on July, 21 2017 to lease a lawn mower. The lease terms are three annual payments of \$1,529 and a purchase price option of \$3,750 at the lease term end date of July 19, 2020. Future minimum lease payments as of December 31, 2019, are as follows:

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

NOTE 18 CONSTRUCTION COMMITMENTS

The City began a water tower improvement project during 2019. As of December 31, 2019, the City had the following commitments for construction contracts:

Total Projected Cost	\$1,241,000
Incurred to Date	<u>(970,099)</u>
Committed Cost	<u>\$ 301,000</u>
Percent Complete	78.0%

The contract will be paid in 2020 with proceeds remaining from bond issues and grant proceeds.

The City also began a street improvement project during 2019. As of December 31, 2019, the City had the following commitments for construction contracts:

Total Projected Cost	\$4,160,000
Incurred to Date	<u>(3,619,697)</u>
Committed Cost	<u>\$ 540,303</u>
Percent Complete	87.0%

The contract will be paid in 2020 with proceeds remaining from bond issues.

NOTE 19 DEFICIT FUND BALANCE

The fund balance in the Debt Service Fund was (\$108,535) at December 31, 2019. The cause of the deficit is a timing difference between debt service obligations and tax receipts. The deficit fund balance is expected to be relieved from future tax revenues.

NOTE 20 SUBSEQUENT EVENTS

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through June 30, 2020

CITY OF LAKOTA, NORTH DAKOTA
Budget Comparison Schedule – Modified Cash Basis
General Fund
December 31, 2019

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 105,506	\$ 104,985	\$ (521)
Licenses & Permits	10,760	7,837	(2,923)
Intergovernmental Sources	56,804	55,459	(1,345)
Earnings on Investments	600	1,727	1,127
Sale of Property	2,000	-	(2,000)
Other Sources	1,000	6,988	5,988
Total Receipts	176,670	176,996	326
Disbursements:			
General Government	112,928	101,316	11,612
Public Safety	27,820	27,821	(1)
Public Service	6,606	3,851	2,755
Total Disbursements	147,354	132,987	14,367
Excess Receipts over (under) Disbursements	29,316	44,009	14,693
Interfund Transfers In	148,224	149,684	1,460
Interfund Transfers (Out)	(177,540)	(167,026)	10,514
Net change in Fund Balances	\$ -	\$ 26,666	\$ 26,666
Fund Balance - January 1	49,021	49,021	
Fund Balance - December 31	\$ 49,021	\$ 75,687	

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

CITY OF LAKOTA, NORTH DAKOTA
Budget Comparison Schedule – Modified Cash Basis
Special Street Fund
December 31, 2019

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 8,108	\$ 2,735	\$ (5,373)
Intergovernmental Sources	52,000	52,704	704
Other Sources	11,200	12,253	1,053
Total Receipts	71,308	67,692	(3,616)
Disbursements:			
Public Service	129,988	127,245	2,743
Capital Outlay	905,020	905,020	0
Total Disbursements	1,035,008	1,032,265	2,743
Excess Receipts over (under) Disbursements	(963,700)	(964,573)	(873)
Bond Proceeds	862,231	862,231	0
Interfund Transfers In	58,680	91,201	32,521
Net change in Fund Balances	\$ (42,789)	\$ (11,141)	\$ 31,648
Fund Balance - January 1	11,141	11,141	
Fund Balance - December 31	\$ (31,648)	\$ 0	

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

CITY OF LAKOTA, NORTH DAKOTA
Budget Comparison Schedule – Modified Cash Basis
Sales & Lodging Tax Funds
December 31, 2019

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 78,400	\$ 93,489	\$ 15,089
Earnings on Investments	2,700	4,137	1,437
Miscellaneous	150	50	(100)
Total Revenues	<u>81,250</u>	<u>97,676</u>	<u>16,426</u>
Disbursements:			
Economic Development	77,478	55,080	22,398
Capital Outlay	-	28,833	(28,833)
Total Disbursements	<u>77,478</u>	<u>83,913</u>	<u>(6,435)</u>
Excess Receipts over (under) Disbursements	<u>3,772</u>	<u>13,763</u>	<u>9,991</u>
Fund Balance - January 1	540,388	540,388	
Fund Balance - December 31	<u>\$ 544,160</u>	<u>\$ 554,151</u>	

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

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

Year Ended December 31	Employer's Proportion Of the Net Pension Liability (Asset)	Employer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2014	0.011978%	76,027	100,897	75.4%	77.70%
2015	0.023667%	160,932	210,845	76.3%	77.15%
2016	0.018785%	183,078	189,309	96.7%	70.46%
2017	0.020151%	323,893	205,708	157.5%	61.98%
2018	0.022658%	382,378	232,770	164.3%	62.80%
2019	0.016770%	196,557	174,441	112.7%	71.66%

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

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

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

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

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2014	7,184	7,184	0	100,897	7.12%
2015	16,015	15,641	374	210,845	7.42%
2016	13,706	13,708	(2)	189,309	7.24%
2017	14,916	15,823	(907)	205,708	7.69%
2018	17,144	13,245	3,899	232,770	5.69%
2019	12,700	18,669	(5,969)	174,441	10.70%

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

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

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

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

Year Ended December 31	Employer's Proportion Of the Net Pension Liability (Asset)	Employer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2017	0.019015%	15,041	205,708	7.3%	59.78%
2018	0.021273%	16,754	232,770	7.2%	61.89%
2019	0.015633%	12,556	174,441	7.2%	63.13%

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

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

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

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

Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	2,391	2,533	(142)	205,708	1.23%
2018	2,730	2,121	609	232,770	0.91%
2019	2,029	2,989	(960)	174,441	1.71%

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

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

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

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Fund Activity – Modified Cash Basis
December 31, 2019

Governmental Funds	Balance 01/01/19	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12/31/19
Major Funds							
General	\$ 49,021	\$ 176,996	\$ 149,684	\$ -	\$ (167,026)	\$ (132,987)	\$ 75,687
Special Street	11,141	67,692	91,201	862,231	-	(1,032,265)	-
Sales & Lodging Tax	540,388	97,676	-	-	-	(83,913)	554,151
City Share of Specials	60,613	134,579	-	-	(26,000)	(277,728)	(108,535)
Total Major Funds	\$ 661,163	\$ 476,944	\$ 240,884	\$ 862,231	\$ (193,026)	\$ (1,526,894)	\$ 521,302
Non-major Funds							
Community Center	\$ (11)	\$ 39,932	\$ 16,378	\$ -	\$ -	\$ (52,079)	\$ 4,221
Library Fund	5,556	56,996	20,757	-	-	(61,950)	21,359
Swimming Pool Fund	(75)	150	26,879	-	-	(27,029)	(75)
Cemetery Fund	47,568	13,321	30	-	-	(16,420)	44,499
Airport Authority Fund	-	71,000	3,475	-	-	(74,475)	-
Building Fund	49,416	-	-	-	(49,416)	-	-
Emergency Fund	38,386	1,987	-	-	-	-	40,373
Advertising Fund	1,816	-	-	-	(1,816)	-	-
Economic Development Fund	7,805	7	-	-	(7,137)	-	675
Total Non-major Funds	\$ 150,461	\$ 183,393	\$ 67,520	\$ -	\$ (58,368)	\$ (231,953)	\$ 111,053
Total Governmental Funds	\$ 811,624	\$ 660,337	\$ 308,404	\$ 862,231	\$ (251,394)	\$ (1,758,847)	\$ 632,356
Enterprise Funds							
Major Funds							
Electric Fund	\$ 1,424,011	\$ 1,296,421	\$ 4,073	\$ 28,376	\$ (122,622)	\$ (874,618)	\$ 1,755,641
Water Fund	858,332	615,699	27,590	(80,912)	(22,806)	(200,086)	1,197,818
Sewer Fund	1,078,302	92,648	26,699	23,735	-	(119,968)	1,101,417
Total Major Funds	\$ 3,360,645	\$ 2,004,768	\$ 58,361	\$ (28,800)	\$ (145,428)	\$ (1,194,671)	\$ 4,054,875
Non-major Funds							
Garbage Fund	\$ 23,400	\$ 100,199	\$ -	\$ -	\$ -	\$ (101,047)	\$ 22,552
Golf Fund	211,133	72,341	30,057	(329)	-	(89,771)	223,432
Total Non-major Funds	\$ 234,534	\$ 172,540	\$ 30,057	\$ (329)	\$ -	\$ (190,818)	\$ 245,984
Total Enterprise Funds	\$ 3,595,179	\$ 2,177,308	\$ 88,418	\$ (29,129)	\$ (145,428)	\$ (1,385,489)	\$ 4,300,859
Total Reporting Entity	\$ 4,406,803	\$ 2,837,645	\$ 396,823	\$ 833,102	\$ (396,823)	\$ (3,144,336)	\$ 4,933,215

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Required Supplementary Information
December 31, 2019

NOTE 1 BUDGETS

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

- a) The final budget must be adopted on or before October 7, and must be filed with the County Auditor by October 10. The budget may be amended during the year, except no amendment changing the taxes levied can be made after October 10.
- b) The City Council approves total budget appropriations only. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc.)
- c) The budget amounts shown in the financial statements are the final authorized amounts.

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

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

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

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

The following fund's expenditures exceeded budgeted amounts for the year ended December 31, 2019.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Community Center	44,101	51,427	(7,326)
Sales Tax and Lodging	77,478	83,913	(6,435)
Pool	24,808	26,895	(2,087)

No corrective action by the governing board is planned.

NOTE 2 PENSION PLAN

Changes of Benefit Terms

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of Assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

NOTE 3 OTHER POST EMPLOYMENT BENEFITS

Changes of Benefit Terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of Assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.



Hurtt, Mortenson & Rygh

Certified Public Accountants

Wally Rygh, CPA
Lynda J. Hurtt, CPA
Richard Mortenson, CPA
Patty Dahlen, Partner

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

To the City Council
City of Lakota, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lakota, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise City of Lakota, North Dakota's basic financial statements and have issued our report thereon dated December 31, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2019-1, described in the accompanying schedule of findings and questioned costs, to be a material weakness.

PARK RIVER

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P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-2427

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

CAVALIER

206 Dakota Street West
P.O. BOX 33
Cavalier, ND 58220
(701) 265-8644

GRAFTON

735 Hill Avenue, Ste 201
Grafton, ND 58237
(701) 352-2285

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2019-2, described in the accompanying schedule of findings and questioned costs, to be a significant deficiency.

Compliance and Other Matters

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

City of Lakota, North Dakota's Response to Findings

City of Lakota, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lakota, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

December 31, 2020

CITY OF LAKOTA, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2019

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2019-1 Segregation of Duties

Condition:

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

Effect:

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

Cause:

There is no segregation of duties, as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursement journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatements to the City of Lakota's financial condition.

Criteria:

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

Recommendation:

If at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the City Of Lakota do so. We further recommend that the entity implement any controls possible to separate the functions of approval of posting of transactions, reconciliation of accounts, and custody of assets among existing staff. In addition, the governing board's oversight role becomes more important. The governing board should diligently review financial reports and request additional information for any items that may appear unusual before disbursements and financial reports are approved.

Client Response:

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

2019-2 Financial Statement Preparation

Condition:

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

Effect:

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

Cause:

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

Criteria:

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

Recommendation:

We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

Client Response:

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