

FINANCIAL STATEMENTS

CITY OF LAKOTA
LAKOTA, NORTH DAKOTA

For the Year Ended
DECEMBER 31, 2021

Prepared By

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CITY OF LAKOTA, NORTH DAKOTA
CITY OFFICIALS
December 31, 2021

Dennis Fahey	Council Member
Tom Hess	Council Member
Dennis Mattern	Council Member
Rodney Mattern	Council Member
William Solberg	Council Member
James Vasichek	Council Member

Brad Hooey	Mayor
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Amie Vasichek	Auditor
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lakota, North Dakota

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, each major fund, and the aggregate remaining fund information of the City of Lakota, North Dakota, as of December 31, 2021, 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 for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City Of Lakota, North Dakota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter—Basis of Accounting

We draw attention to Note A 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.

Responsibilities of Management 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, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City Of Lakota, North Dakota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City Of Lakota, North Dakota's ability to continue as a going concern for a reasonable period of time.

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 August 07, 2023, 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.



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

August 07, 2023

BASIC FINANCIAL STATEMENTS

CITY OF LAKOTA, NORTH DAKOTA
Statement of Net Position – Modified Cash Basis
December 31, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 900,460	\$ 2,110,393	\$ 3,010,853
Materials Inventory	-	25,747	25,747
Total Current Assets	900,460	2,136,140	3,036,600
CAPITAL ASSETS			
Capital Assets net of Accumulated Depreciation	6,864,123	5,448,985	12,313,109
Total Capital Assets	6,864,123	5,448,985	12,313,109
OTHER ASSETS			
Certificate of Deposits Reserved for Debt Service	-	577,504	577,504
Internal Balances	(119,598)	119,598	-
Total Other Assets	(119,598)	697,102	577,504
Total Assets	\$ 7,644,985	\$ 8,282,228	\$ 15,927,213
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES			
Customer Deposits	\$ 3,850	\$ 23,883	\$ 27,733
Current Maturity on Long Term Debt	181,553	112,731	294,284
Total Current Liabilities	185,403	136,614	322,017
NON CURRENT LIABILITIES			
Bonds Payable	3,183,957	2,450,165	5,634,122
Notes Payable	-	20,918	20,918
Less: Current Maturities on Long Term Debt	(181,553)	(112,731)	(294,284)
Total Non Current Liabilities	3,002,404	2,358,352	5,360,756
Total Liabilities	3,187,807	2,494,966	5,682,773
NET POSITION			
Net investment in Capital Assets	3,680,166	2,977,903	6,658,069
Restricted For:			
Capital Projects	20,003	-	20,003
Debt Service	-	620,447	620,447
Economic Development	332,769	-	332,769
Infrastructure	251,194	-	251,194
Equipment Replacement	-	25,088	25,088
Other	116,466	-	116,466
Unrestricted	56,580	2,163,824	2,220,404
Total Net Position	4,457,177	5,787,262	10,244,440
Total Liabilities & Net Position	\$ 7,644,985	\$ 8,282,228	\$ 15,927,213

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, 2021

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	\$ 133,096	\$ 308,540	\$ -	\$ -	\$ 175,444	\$ -	\$ 175,444
Public Safety	27,821	-	-	-	(27,821)	-	(27,821)
Public Service	598,955	12,028	48,663	136,454	(401,810)	-	(401,810)
Parks, Recreation & Cemetery	50,371	-	18,282	85,091	53,002	-	53,002
Interest Expense	68,484	-	-	-	(68,484)	-	(68,484)
Total Government Activities	878,727	320,568	66,945	221,545	(269,669)	-	(269,669)
Business Type Activities:							
Utility Systems	1,275,661	1,658,850	-	829,586	-	1,212,776	1,212,776
Other	104,267	76,648	-	-	-	(27,619)	(27,619)
Interest Expense	62,133	-	-	-	-	(62,133)	(62,133)
Total Business Type Activities	1,442,061	1,735,498	-	829,586	-	1,123,023	1,123,023
Total Primary Government	\$ 2,320,788	\$ 2,056,066	\$ 66,945	\$ 1,051,131	\$ (269,669)	\$ 1,123,023	\$ 853,354

General Receipts:

Property Taxes Levies for:			
General Purposes	\$ 155,529	\$ -	\$ 155,529
Sales & Lodging Tax	103,932	-	103,932
Federal & State Aid not restricted to special purposes	106,933	-	106,933
Earnings on Investments	1,731	26,620	28,352
Gain (Loss) on Sale of Assets	7,000	-	7,000
Other Receipts	57,896	63,880	121,777
Total General Receipts	\$ 433,022	\$ 90,501	\$ 523,523
Transfers To & From Other Funds	153,476	(153,476)	-
Change in Net Position	316,828	1,060,048	1,376,877
Net Position - January 1	4,156,385	4,727,213	6,761,457
Restatements	(16,036)	-	(16,036)
Net Position - January 1 as restated	4,140,349	4,727,213	8,867,562
Net Position - December 31	\$ 4,457,177	\$ 5,787,262	\$ 10,244,439

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, 2021

	Major Funds					Total Gov'tl. Funds
	General Fund	Special Street Fund	Sales & Lodging Tax Funds	Debt Service Fund	Other Gov't. Funds	
ASSETS:						
CURRENT ASSETS						
Cash & Cash Equivalents	\$ 95,700	\$ -	\$ 583,963	\$ 86,267	\$ 134,530	\$ 900,460
Total Current Assets	95,700	-	583,963	86,267	134,530	900,460
Total Assets	\$ 95,700	\$ -	\$ 583,963	\$ 86,267	\$ 134,530	\$ 900,460
LIABILITIES AND FUND BALANCE:						
CURRENT LIABILITIES						
Deposits	\$ -	\$ -	\$ -	-	\$ 3,850	\$ 3,850
Due To Other Funds	-	8,764	-	110,834	-	119,598
Total Current Liabilities	\$ -	\$ 8,764	\$ -	\$ 110,834	\$ 3,850	\$ 123,448
FUND BALANCES						
Restricted For:						
Economic Development	-	-	332,769	-	-	332,769
Infrastructure	-	-	251,194	-	-	251,194
Other	5,688	-	-	-	110,778	116,466
Unassigned, Reported In:						
General Fund	90,012	-	-	-	-	90,012
Negative Fund Balances	-	(8,764)	-	(24,567)	(100)	(33,431)
Total Fund Balance	95,700	(8,764)	583,963	(24,567)	130,680	777,012
Total Liabilities & Fund Balance	\$ 95,700	\$ -	\$ 583,963	\$ 86,267	\$ 134,530	\$ 900,460

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, 2021

Total *Fund Balance* for Governmental Funds \$ 777,012

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	9,790,560	
Less: Accumulated Depreciation	<u>(2,926,436)</u>	
Net Capital Assets		6,864,124

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>(3,183,957)</u>	
Total Long-Term Liabilities		(3,183,957)

Total Net Position - Governmental Activities		<u><u>\$ 4,457,177</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, 2021

	Major Funds					Total Gov't. Funds
	General	Special	Sales &	Debt	Other	
	Fund	Street Fund	Lodging Tax Funds	Service Fund	Gov't. Funds	
Receipts:						
Property Taxes	\$ 104,484	\$ 3,113	\$ 103,932	\$ 22,032	\$ 25,901	\$ 259,461
Special Assessments	-	-	-	301,811	-	301,811
Licenses & Permits	6,729	-	-	-	-	6,729
Intergovernmental Sources	106,933	48,663	-	-	221,545	377,141
Charges for Services	-	8,861	-	-	3,168	12,028
Earnings on Investments	435	-	1,030	47	219	1,731
Other Local Sources	18,471	681	-	-	55,715	74,868
Total Receipts	237,052	61,317	104,962	323,889	306,548	1,033,769
Disbursements:						
Current:						
General Government	107,468	-	-	-	-	107,468
Public Safety	27,821	-	-	-	-	27,821
Public Service	5,898	142,726	9,521	-	101,512	259,657
Parks, Recreation & Cemetery	-	-	-	-	49,919	49,919
Capital Outlay	-	-	13,350	25,628	74,007	112,985
Debt Service:						
Debt Principle Paid	-	-	-	185,734	-	185,734
Interest Expense	-	-	-	68,484	-	68,484
Total Expenditures	141,187	142,726	22,871	279,845	225,439	812,068
Excess Receipts over (under) Disbursements	95,865	(81,409)	82,091	44,044	81,110	221,701
Other Financing Sources (Uses)						
Sale of Property	7,000	-	-	-	-	7,000
Interfund Transfers In	172,829	83,440	-	-	119,670	375,940
Interfund Transfers (Out)	(222,464)	-	-	-	-	(222,464)
Net Change in Fund Balance	\$ 53,230	\$ 2,031	\$ 82,091	\$ 44,044	\$ 200,780	\$ 382,177
Fund Balance - January 1	42,470	(10,795)	501,871	(68,611)	(54,063)	410,871
Restatements	-	-	-	-	(16,036)	(16,036)
Fund Balance - January 1 as rest	42,470	(10,795)	501,871	(68,611)	(70,100)	394,835
Fund Balance - December 31	\$ 95,700	\$ (8,764)	\$ 583,963	\$ (24,567)	\$ 130,680	\$ 777,012

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, 2021

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

Net change in Fund Balance - Governmental Funds	\$	382,177
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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 outlays exceeded depreciation in the current period.

Capital Asset Additions		87,358
Current Year Depreciation Expense		(339,750)

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		185,734
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Change in Net Position of Governmental Activities	\$	<u>316,828</u>
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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, 2021

	Business-Type Activities - Enterprise Funds				Total
	Electric Fund	Water Fund	Sewer Fund	Other Funds	
ASSETS:					
CURRENT ASSETS					
Cash & Cash Equivalents	\$1,635,209	\$ 203,700	\$ 238,779	\$ 32,705	\$2,110,393
Materials Inventory	18,536	7,211	-	-	25,747
Total Current Assets	1,653,745	210,911	238,779	32,705	2,136,140
NONCURRENT ASSETS					
Capital Assets net of					
Accumulated Depreciation	476,225	3,825,407	925,120	222,233	5,448,985
Certificates of Deposit reserved for debt service	204,819	372,686	-	-	577,504
Due from Other Funds	119,598	-	-	-	119,598
Total Noncurrent Assets	800,642	4,198,092	925,120	222,233	6,146,088
Total Assets	\$2,454,386	\$4,409,004	\$1,163,899	\$ 254,938	\$8,282,228
LIABILITIES AND NET POSITION:					
CURRENT LIABILITIES					
Customer Deposits	\$ 23,883	\$ -	\$ -	\$ -	\$ 23,883
Current Portion of Long Term Debt	-	94,731	18,000	-	112,731
Total Current Liabilities	23,883	94,731	18,000	-	136,614
NON CURRENT LIABILITIES					
Bonds Payable	-	2,401,165	49,000	-	2,450,165
Note Payable	-	20,918	-	-	20,918
Less Current Portion	-	(94,731)	(18,000)	-	(112,731)
Total Non Current Liabilities	-	2,327,352	31,000	-	2,358,352
Total Liabilities	23,883	2,422,083	49,000	-	2,494,966
NET POSITION					
Net Investment in Capital Assets	476,225	1,403,324	876,120	222,233	2,977,903
Restricted for Debt Service	204,819	372,686	42,943	-	620,447
Restricted for Equipment Replacement	-	25,088	-	-	25,088
Unrestricted	1,749,460	185,823	195,836	32,705	2,163,824
Total Net Position	2,430,503	1,986,921	1,114,899	254,938	5,787,262
Total Liabilities & Net Position	\$2,454,386	\$4,409,004	\$1,163,899	\$ 254,938	\$8,282,228

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, 2021

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Receipts:					
Utility Sales	\$ 1,151,320	\$ 277,826	\$ 99,495	\$ 104,422	\$ 1,633,064
Other Charges for Services	350	400	-	76,648	77,398
Other Sources	63,680	-	200	-	63,880
Total Receipts	1,215,351	278,226	99,695	181,069	1,774,341
Operating Disbursements:					
Salaries & Benefits	92,656	58,545	18,670	39,220	209,092
Operational Disbursements	635,906	102,519	35,918	156,790	931,134
Depreciation	34,444	132,135	62,081	11,042	239,702
Total Operating Disbursements	763,006	293,200	116,669	207,053	1,379,928
Net Operating Income	\$ 452,344	\$ (14,974)	\$ (16,974)	\$ (25,983)	\$ 394,414
Non-Operating Receipts (Disbursements)					
Earnings on Investments	26,125	1,471	(979)	3	26,620
Special Assessments	-	-	25,037	-	25,037
Capital Grants	-	829,586	-	-	829,586
Interest Expense	-	(61,173)	(960)	-	(62,133)
Income (Loss) Before Transfers	478,469	754,910	6,125	(25,980)	1,213,524
Interfund Transfers In	8,386	3,739	604	39,577	52,307
Interfund Transfers (Out)	(205,782)	-	-	-	(205,782)
Change in Net Position	\$ 281,072	\$ 758,650	\$ 6,729	\$ 13,598	\$ 1,060,048
Net Position - January 1	2,149,431	1,228,271	1,108,170	241,341	4,727,213
Net Position - December 31	\$ 2,430,503	\$ 1,986,921	\$ 1,114,899	\$ 254,938	\$ 5,787,262

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, 2021

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$ 1,151,670	\$ 278,226	\$ 99,495	\$ 181,069	\$ 1,710,461
Payments to Employees	(92,656)	(58,545)	(18,670)	(39,220)	(209,092)
Payments to Suppliers	(635,756)	(102,519)	(35,918)	(156,790)	(930,984)
Other Receipts	63,680	-	200	-	63,880
Total Cash Flows from Operating Activities	486,939	117,161	45,107	(14,941)	634,266
Cash Flows from Noncapital					
Financing Activities					
Transfers In	8,386	3,739	604	39,577	52,307
Special Assessments	-	-	25,037	-	25,037
Transfers (Out)	(205,782)	-	-	-	(205,782)
(Inc.)/Decrease in Internal Balances	58,215	-	-	-	58,215
Total Cash Flows from Noncapital Financing Activities	(139,182)	3,739	25,641	39,577	(70,224)
Cash Flows from Capital and Related					
Financing Activities					
Bond Proceeds Received	-	456,720	-	-	456,720
Grant Proceeds Received	-	829,586	-	-	829,586
Purchases of Capital Assets	(13,197)	(1,317,336)	-	(23,000)	(1,353,533)
Principal Payments on Bonds	-	(79,755)	(18,000)	-	(97,755)
Principal Payments on Notes Payable	-	(3,032)	-	-	(3,032)
Interest on Debt	-	(61,173)	(960)	-	(62,133)
Total Cash Flows from Capital and Financing Activities	(13,197)	(174,990)	(18,960)	(23,000)	(230,147)
Cash Flows From Investing Activities					
Investment in Certificate of Deposit	(495)	63,647	-	-	63,152
Earnings on Investments	26,125	1,471	(979)	3	26,620
Total Cash Flows From Investing Activities	25,629	65,119	(979)	3	89,773
Net Increase (Decrease) in Cash & Cash Equivalents	360,189	11,029	50,810	1,640	423,668
Cash and Cash Equivalents - January 1	1,275,020	192,671	187,969	31,065	1,686,725
Cash and Cash Equivalents - December 31	\$ 1,635,209	\$ 203,700	\$ 238,779	\$ 32,705	\$ 2,110,393
Reconciliation of Operating Income to Net					
Cash Provided by Operating Activities					
Operating Income (Loss)	452,344	(14,974)	(16,974)	(25,983)	394,414
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	34,444	132,135	62,081	11,042	239,702
Inc./(Decrease) in Deposits Payable	150	-	-	-	150
Total Adjustments	\$ 34,594	\$ 132,135	\$ 62,081	\$ 11,042	\$ 239,852
Net Cash Provided/(Used) by Operating Activities	\$ 486,939	\$ 117,161	\$ 45,107	\$ (14,941)	\$ 634,267

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Financial Statements
December 31, 2021

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 2021.

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, 2021, the City's carrying amount of deposits and CDs totaled \$3,588,357 and the bank balances totaled \$3,605,992. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances totaling \$3,105,992 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, 2021:

Governmental Activities	Balance 1/1/2021	Additions	(Dipsosals)	Balance 12/31/2021
Capital assets being depreciated				
Building & Improvements	\$ 1,833,438	\$ 44,008	\$ -	\$ 1,877,446
Infrastructure	7,423,151	43,350	-	7,466,501
Equipment	446,613	-	-	446,613
Total capital assets being depreciated	\$ 9,703,202	\$ 87,358	\$ -	\$ 9,790,560
Less: accumulated depreciation				
Buildings & Improvements	(642,982)	(51,424)	-	(694,406)
Infrastructure	(1,590,201)	(274,511)	-	(1,864,712)
Equipment	(353,503)	(13,815)	-	(367,318)
Total accumulated depreciation	\$ (2,586,686)	\$ (339,750)	\$ -	\$ (2,926,436)
Net capital assets being depreciated, Net	7,116,516	(252,392)	-	6,864,124
Governmental activities capital assets, Net	\$ 7,116,516	\$ (252,392)	\$ -	\$ 6,864,123

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

Governmental Activities	
Public Service	\$ 339,298
Parks, Recreation, Cemetery	452
Total Depreciation Expense -	
Governmental Activities	<u>\$ 339,750</u>

The following are summaries of changes in capital assets, business-type activities, for the year ended December 31, 2021:

Business-Type Activities	Balance 12/31/2020	Additions	(Disposals)	Balance 12/31/2021
Non-depreciated assets				
Land	\$ 17,045	\$ -	\$ -	\$ 17,045
Construction in Progress	38,484	-	(38,484)	-
Total non-depreciated assets	\$ 55,529	\$ -	\$ (38,484)	\$ 17,045
Capital assets being depreciated				
Electric Utility	\$ 2,197,768	\$ 13,197	\$ (8,000)	\$ 2,202,965
Water Utility	5,034,729	1,355,818	-	6,390,547
Sewer Utility	2,151,921	-	-	2,151,921
Golf Course	337,845	23,000	-	360,845
Total capital assets being depreciated	\$ 9,722,263	\$ 1,392,015	\$ (8,000)	\$ 11,106,278
Less: accumulated depreciation				
Electric Utility	\$ (1,702,295)	\$ (34,444)	\$ 8,000	\$ (1,728,739)
Water Utility	(2,448,052)	(132,135)	-	(2,580,187)
Sewer Utility	(1,164,720)	(62,081)	-	(1,226,801)
Golf Course	(127,569)	(11,042)	-	(138,611)
Total accumulated depreciation	\$ (5,442,636)	\$ (239,702)	\$ 8,000	\$ (5,674,338)
Total capital assets being depreciated, Net	4,279,627	1,152,313	-	5,431,940
Total Business-Type activities, Net	\$ 4,335,154	\$ 1,152,313	\$ (38,484)	\$ 5,448,985

NOTE 7 DUE TO/FROM OTHER FUNDS

At year ended December 31, 2021, an interfund receivable of \$8,764 was reported in the electric fund. The amount is negative cash amounts in the Street Fund. The negative cash balances were due to timing differences between expenditure paid and reimbursements received. The interfund receivable is expected to be paid back during 2022.

At year ended December 31, 2021, an interfund receivable of \$110,834 was reported in the electric 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, 2021			December 31, 2021	
	Due (To) From Other Funds	Increase	Decrease	Due (To) From Other Funds	
Highway Fund	\$ (10,795)	\$ -	\$ 2,031	\$ (8,764)	
Sales Tax Fund	68,611	-	(68,611)	-	
Pool & Park Fund	(75,274)	-	75,274	-	
Airport Authority Fund	(91,744)	-	91,744	-	
Debt Service Fund	(68,611)	-	(42,223)	(110,834)	
Total Governmental Activities	\$ (177,813)	\$ -	\$ 58,215	\$ (119,598)	
Business-Type Activities					
Electric Fund	177,813	-	(58,215)	119,598	
Total Business Type Activities	\$ 177,813	\$ -	\$ (58,215)	\$ 119,598	

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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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, 2021, the Employer reported a liability of \$218,581 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2021, the Employer's proportion was 0.020971 percent, which was an increase of 0.000653 percent from its proportion measured as of June 30, 2020.

For the year December 31, 2021, the Employer's accrual basis pension expense was \$35,085. At December 31, 2021, 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	\$ 3,773	\$ 22,309
Changes of assumptions	241,927	315,422
Net difference between projected and actual earnings on pension plan investments	-	81,068
Changes in proportion and differences between Employer contributions and proportionate share of contributions	40,892	26,932
*Employer contributions subsequent to the measurement date of July 1, 2021	8,710	-
Total	<u>\$ 295,302</u>	<u>\$ 445,731</u>

*\$8,710 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, 2022.

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:

2022	\$ (20,563)
2023	(37,603)
2024	(23,821)
2025	(77,150)
2026	-
Thereafter	-
Total	<u>\$ (159,137)</u>

Actuarial Assumption

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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%	6.00%
International Equity	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
Global Real Estate	19%	4.77%
Cash Equivalents	0%	0.00%

Discount Rate

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 1.92%; and the resulting Single Discount Rate is 7.00%.

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 7.00 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 (6.00 percent) or 1-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Employer's proportionate share of the net pension liability	347,617	218,581	111,138

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, 2021, the city had no accrued liability for wages attributable to the fiscal year ended December 31, 2021.

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. 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 were no other benefit changes during the year.

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, 2021, the Employer reported a liability of \$6,588 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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, 2021, the Employer's proportion was 0.011845 percent, which was a decrease of 0.004033 percent from its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the Employer's accrual basis OPEB expense was \$186. At December 31, 2021, 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	\$ 378	\$ 181
Changes of assumptions	1,020	-
Net difference between projected and actual earnings on pension plan investments	-	2,257
Changes in proportion and differences between Employer contributions and proportionate share of contributions	671	3,824
*Employer contributions subsequent to the measurement date of July 1, 2021	1,395	-
Total	<u>\$ 3,464</u>	<u>\$ 6,262</u>

*\$1,395 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, 2022.

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:

2022	\$ (852)
2023	(868)
2024	(978)
2025	(1,287)
2026	(208)
Thereafter	-
Total	<u>\$ (4,193)</u>

Actuarial assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Lg Cap Domestic Equities	33%	5.85%
Sm Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	40%	0.50%
International Equities	21%	6.25%

Discount rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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, 2021, calculated using the discount rate of 6.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Employer's proportionate share of the net pension liability	9,771	6,588	3,895

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, 2021, the City had no accrued payable for wages attributable to the fiscal year ended December 31, 2021

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, 2021, the following changes occurred in long-term liabilities of the city:

	Balance			Balance	Due Within
Governmental Activities	01/01/21	Decreases	Increases	12/31/21	One Year
Special Assessments	\$ 3,371,002	\$ (187,045)	\$ -	\$ 3,183,957	\$ 181,553
Total Governmental Activities	\$ 3,371,002	\$ (187,045)	\$ -	\$ 3,183,957	\$ 181,553
<u>Business-Type Activities</u>					
Revenue Bonds	\$ 2,091,200	\$ (97,755)	\$ 456,720	\$ 2,450,165	\$ 109,609
Other Debt	23,949	(3,032)	-	20,918	3,122
Total Business-Type Activities	\$ 2,115,149	\$ (100,787)	\$ 456,720	\$ 2,471,083	\$ 112,731

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 \$3,564,682 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.

\$3,183,957

Total special assessment bonds

\$3,183,957

REVENUE BONDS (business-type activities) - Revenue Bonds are collateralized by a pledge of revenues derived and to be derived from the operation of the respective fund after deduction therefrom of the amount necessary to pay all operating and maintenance charges of the fund as required by applicable bond resolutions. The City is also required to maintain rates sufficient (1) provide gross revenues sufficient to pay when due all costs payable under the operations and maintenance account, (2) provide net revenues equal to 120% of average annual interest and principal requirements on all outstanding bonds, (3) to establish and maintain the reserve funds.

At December 31, 2021, the Water Fund’s average annual principal and interest on debt was \$88,156. Total net water revenues for the year ended December 31, 2021 were \$122,513. No interest was capitalized during December 31, 2021; interest incurred and charged to expense totaled \$61,173. As of December 31, 2021, principal and interest to maturity in 2059 to be paid from pledged future revenues totaled \$3,298,255.

At December 31, 2021, the Sewer Fund’s average annual principal and interest on debt was \$18,233. Total net sewer revenues for the year ended December 31, 2021 were \$69,770. No interest was capitalized during December 31, 2021; interest incurred and charged to expense totaled \$960. As of December 31, 2021, principal and interest to maturity in 2024 to be paid from pledged future revenues totaled \$54,700.

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

Wastewater Treatment Assessment Warrant, Series 2006

Authorized issue amount is \$414,948 used for sewer repairs and improvements. 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 in March and September and principal due annually in September until maturity on September 1, 2026.

\$49,000

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.

\$301,027

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 payable semiannually starting at %1 and increasing to 4.25% over the 25 year amortization period.

\$745,000

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%.

\$315,960

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.

\$582,458

Water Treatment Revenue Bonds Series 2021B

Original issue amount of \$474,500 use for a water transmission line replacement project. Interest rate is 1.50% and a .50% administration fee. Principal is due annually in September and interest payments are due semi annually in March and September for a 30 year period, maturity on September 1, 2051.

\$456,720

Total Revenue Bonds

\$2,450,165

Governmental and business-type activities debt service requirements to maturity at December 31, 2021, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Special Assessment		Revenue Bonds	
	Principal	Interest	Principal	Interest
2022	\$ 181,553	\$ 72,665	\$ 109,609	\$ 63,689
2023	185,184	69,034	113,635	61,756
2024	188,888	65,330	109,489	59,133
2025	192,665	61,553	87,251	55,488
2026	196,519	57,699	88,120	53,047
2027 - 2031	1,043,145	227,944	478,535	225,261
2032 - 2036	1,151,717	119,373	522,876	150,013
2037 - 2041	493,590	14,856	245,363	84,089
2042 - 2046	-	-	207,857	62,703
2047 - 2051	-	-	252,498	41,237
2052 - 2056	-	-	158,838	19,722
2057 - 2061	-	-	76,093	3,440
Total	\$ 3,633,261	\$ 688,454	\$ 2,450,165	\$ 879,577

NOTE 12 OTHER DEBT PAYABLE

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

Business Type Activities:

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 payments are fixed at \$3,750.

\$23,949

Total Other Debt

\$23,949

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

Year Ending December 31	Business-Type Activities	
	Other Debt	
	Principal	Interest
2022	\$ 3,122	\$ 621
2023	3,216	534
2024	3,313	437
2025	3,412	338
2026	3,514	236
2027 - 2031	4,340	130
Total	<u>\$ 20,917</u>	<u>\$ 2,296</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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence. The City of Lakota also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Lakota pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding fund currently provides the City of Lakota with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 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, 2021.

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	\$ 172,829	\$ (222,464)
Highway Fund	83,440	-
Community Building Fund	28,212	-
Library Fund	19,930	-
Sales Tax Fund	-	-
Swimming Pool Fund	56,335	-
Airport Authority Fund	14,907	-
City Share of Specials	-	-
Electric Fund	8,386	(205,782)
Water	3,739	-
Sewer	604	-
Golf Course Fund	39,577	-
	<u>\$ 428,246</u>	<u>\$ (428,246)</u>

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

NOTE 17 DEFICIT FUND BALANCE

The fund balance in the Debt Service Fund was (\$24,567) at December 31, 2021. 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.

The fund balance in the Street Fund was (\$8,764) at December 31, 2021. The cause of the deficit is a timing difference between street improvement costs and debt service reimbursements. The deficit fund balance is expected to be relieved from future debt proceeds.

NOTE 18 PRIOR PERIOD ADJUSTMENT

On January 1, 2021, a prior period adjustment was made to the library fund’s cash balance. The adjustment was made to remove library cash balances that are controlled by an independent library board. The result was a decrease to fund balance of \$16,036.

NOTE 18 SUBSEQUENT EVENTS

No significant events occurred subsequent to the City’s year end. Subsequent events have been evaluated through June 30, 2021

SUPPLEMENTARY INFORMATION

CITY OF LAKOTA, NORTH DAKOTA
Budget Comparison Schedule – Modified Cash Basis
General Fund
December 31, 2021

	General Fund		
	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 125,200	\$ 104,484	\$ (20,716)
Licenses & Permits	8,295	6,729	(1,566)
Intergovernmental Sources	51,700	106,933	55,233
Earnings on Investments	1,000	435	(565)
Sale of Property	2,000	7,000	5,000
Other Sources	1,000	18,471	17,471
Total Receipts	189,195	244,052	54,857
Disbursements:			
General Government	117,609	107,468	10,141
Public Safety	27,820	27,821	(1)
Public Service	4,088	5,898	(1,810)
Total Disbursements	149,517	141,187	8,330
Excess Receipts over (under) Disbursements	39,678	102,865	63,187
Interfund Transfers In	164,103	201,078	36,975
Interfund Transfers (Out)	(203,781)	(250,713)	(46,932)
Net change in Fund Balances	\$ -	\$ 53,230	\$ 53,230
Fund Balance - January 1	42,470	42,470	
Fund Balance - December 31	\$ 42,470	\$ 95,700	

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, 2021

	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 2,200	\$ 3,113	\$ 913
Intergovernmental Sources	40,000	48,663	8,663
Other Sources	10,300	9,542	(758)
Total Receipts	52,500	61,317	8,817
Disbursements:			
Public Service	134,402	142,726	(8,324)
Total Disbursements	134,402	142,726	(8,324)
Excess Receipts over (under) Disbursements	(81,902)	(81,409)	493
Interfund Transfers In	81,902	83,440	1,538
Net change in Fund Balances	\$ -	\$ 2,031	\$ 2,031
Fund Balance - January 1	(10,795)	(10,795)	
Fund Balance - December 31	\$ (10,795)	\$ (8,764)	

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, 2021

	<u>Sales & Lodging Tax Funds</u>		
	Original & Final		
	Budget	Actual	Variance
Receipts:			
Taxes	\$ 76,000	\$ 103,932	\$ 27,932
Earnings on Investments	2,700	1,030	(1,670)
Miscellaneous	150	-	(150)
Total Revenues	<u>78,850</u>	<u>104,962</u>	<u>26,112</u>
Disbursements:			
Economic Development	75,078	9,521	65,557
Capital Outlay	-	13,350	(13,350)
Total Disbursements	<u>75,078</u>	<u>22,871</u>	<u>52,207</u>
Excess Receipts over (under) Disbursements	<u>3,772</u>	<u>82,091</u>	<u>78,319</u>
Fund Balance - January 1	501,871	501,871	
Fund Balance - December 31	<u><u>\$ 505,643</u></u>	<u><u>\$ 583,963</u></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%
2020	0.020318%	639,209	224,127	285.2%	48.91%
2021	0.020971%	218,581	237,479	92.0%	78.26%

*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%
2020	15,871	13,939	1,932	224,127	6.22%
2021	17,513	16,470	1,043	237,479	6.94%

*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%
2020	0.015878%	13,357	180,999	7.4%	63.38%
2021	0.011845%	6,588	129,141	5.1%	76.63%

*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%
2020	2,126	2,139	(13)	180,999	1.18%
2021	1,553	1,953	(400)	129,141	1.51%

*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, 2021

	Balance		Transfers	Other	Transfers		Balance
Governmental Funds	01/01/21	Receipts	In	Financing	Out	Disbursements	12/31/21
Major Funds							
General	\$ 42,470	\$ 237,052	\$ 172,829	\$ 7,000	\$ (222,464)	\$ (141,187)	\$ 95,700
Special Street	(10,795)	61,317	83,440	-	-	(142,726)	(8,764)
Sales & Lodging Tax	501,871	104,962	-	-	-	(22,871)	583,963
Debt Service	(68,611)	323,889	-	-	-	(279,845)	(24,567)
Total Major Funds	\$ 464,935	\$ 727,221	\$ 256,269	\$ 7,000	\$ (222,464)	\$ (586,630)	\$ 646,332
Non-major Funds							
Community Center	\$ 7,049	\$ 31,380	\$ 28,212	\$ -	\$ -	\$ (46,734)	\$ 19,906
Library Fund	27	12,706	19,930	-	-	(32,076)	587
Parks & Pool Fund Fund	(75,349)	85,241	56,335	-	-	(66,328)	(100)
Cemetery Fund	47,120	32,109	286	-	-	(14,249)	65,266
Airport Authority Fund	(91,744)	143,157	14,907	-	-	(66,052)	268
Emergency Fund	42,112	1,956	-	-	-	-	44,068
Total Non-major Funds	\$ (70,100)	\$ 306,548	\$ 119,670	\$ -	\$ -	\$ (225,439)	\$ 130,680
Total Governmental Funds	\$ 394,835	\$ 1,033,769	\$ 375,940	\$ 7,000	\$ (222,464)	\$ (812,068)	\$ 777,012
Enterprise Funds							
Major Funds							
Electric Fund	\$ 2,149,431	\$ 1,215,351	\$ 8,386	\$ 26,125	\$ (205,782)	\$ (763,006)	\$ 2,430,503
Water Fund	1,228,271	1,107,812	3,739	(59,702)	-	(293,200)	1,986,921
Sewer Fund	1,108,170	99,695	604	23,098	-	(116,669)	1,114,899
Total Major Funds	\$ 4,485,872	\$ 2,422,858	\$ 12,729	\$ (10,479)	\$ (205,782)	\$ (1,172,875)	\$ 5,532,323
Non-major Funds							
Garbage Fund	\$ 24,869	\$ 104,422	\$ -	\$ -	\$ -	\$ (102,786)	\$ 26,505
Golf Fund	216,472	76,648	39,577	3	-	(104,267)	228,433
Total Non-major Funds	\$ 241,341	\$ 181,069	\$ 39,577	\$ 3	\$ -	\$ (207,053)	\$ 254,938
Total Enterprise Funds	\$ 4,727,213	\$ 2,603,928	\$ 52,307	\$ (10,476)	\$ (205,782)	\$ (1,379,928)	\$ 5,787,262
Total Reporting Entity	\$ 5,122,048	\$ 3,637,697	\$ 428,246	\$ (3,476)	\$ (428,246)	\$ (2,191,996)	\$ 6,564,274

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Supplementary Information
December 31, 2021

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, 2021.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Street Fund	134,402	142,726	(8,324)
Community Center	44,718	46,269	(1,551)
Library	27,835	32,076	(4,241)
Pool	26,358	66,328	(39,970)
Cemetery	3,615	14,249	(10,634)
Airport	18,433	66,052	(47,619)
Debt Service	79,715	279,845	(200,130)

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 7.00 percent to 6.50 percent effective January 1, 2021 (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, 2020.

Changes of assumptions.

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

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, 2020.

Changes of Assumptions

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.



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, 2021, 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 July 11, 2022.

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 2021-1, described in the accompanying schedule of findings and questioned costs, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2021-2, 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.



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

August 07, 2023

CITY OF LAKOTA, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2021-1 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.

Prior Recommendation

Yes

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.

2021-2 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.

Prior Recommendation

Yes

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 the preparation of financial statements.