



# City of Wahpeton

Wahpeton, North Dakota

## Audit Report

For the Year Ended December 31, 2018

**JOSHUA C. GALLION**  
STATE AUDITOR

Office of the State Auditor  
Division of Local Government

# CITY OF WAHPETON

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For the Year Ended December 31, 2018

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# CITY OF WAHPETON

City Officials and Audit Personnel  
December 31, 2018

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## CITY OFFICIALS

Steven Dale	Mayor
Lane Wateland	President
Brett Lambrecht	Vice President
Rory McCann	Board Member
Renelle Bertsch	Board Member
Don Bajumpaa	Board Member
Tiana Bohn	Board Member
Kelly McNary	Board Member
Perry Miller	Board Member
Darcie Huwe	City Finance Director
Steven J. Lies	City Attorney
Carla J. Broadland	City Assessor
Dennis Miranowski	Public Works Director
Chris DeVries	Community Development Director
Scott Thorsteinson	Police Chief

## AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Heath Erickson, CPA	Audit In-Charge



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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**INDEPENDENT AUDITOR'S REPORT**

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Board of City Commissioners  
City of Wahpeton  
Wahpeton, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wahpeton, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Wahpeton's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

**Opinions**

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

**Other Matters**

*Required Supplementary Information*

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

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

*Other Information*

Other information of the City of Wahpeton consists of the *schedule of fund activity and schedule of expenditures of federal awards*, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wahpeton's basic financial statements. The *other information* is presented for purposes of additional analysis and is not a required part of the financial statements.

The *other information* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 *other information* is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2019 on our consideration of the City of Wahpeton'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 City of Wahpeton's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
June 4, 2019

**CITY OF WAHPETON**

Statement of Net Position  
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 8,648,157	\$ 2,477,221	\$ 11,125,378
Accounts Receivable	18,758	-	18,758
Intergovernmental Receivable	1,124,665	-	1,124,665
Utility Billings Receivable	-	285,896	285,896
Taxes Receivable	52,661	-	52,661
Special Assessments Receivable	4,564,650	-	4,564,650
Loans Receivable, Net	1,123,454	-	1,123,454
Capital Assets, Net	51,684,223	7,457,625	59,141,848
<b>Total Assets</b>	<b>\$ 67,216,568</b>	<b>\$ 10,220,742</b>	<b>\$ 77,437,310</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Derived from Pensions & OPEB	\$ 1,298,637	\$ 460,576	\$ 1,759,213
<b>LIABILITIES</b>			
Accounts Payable & Accrued Expenses	\$ 91,429	\$ 53,384	\$ 144,813
Salaries Payable and Accrued Benefits	77,304	-	77,304
RLF Payable	500	-	500
Retainages Payable	501,431	-	501,431
Accrued Interest Payable	63,293	5,934	69,227
Long Term Liabilities			
Due Within One Year			
Long Term Debt	\$ 1,534,881	135,000	\$ 1,669,881
Compensated Absences Payable	16,575	6,596	23,171
Due After One Year			
Long Term Debt	10,128,408	577,000	10,705,408
Compensated Absences Payable	149,171	59,365	208,536
Net Pension & OPEB Liability	3,047,660	1,080,886	4,128,546
<b>Total Liabilities</b>	<b>\$ 15,610,652</b>	<b>\$ 1,918,165</b>	<b>\$ 17,528,817</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Derived from Pensions & OPEB	\$ 306,088	\$ 108,558	\$ 414,646
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 40,020,934	\$ 6,745,625	\$ 46,766,559
Restricted			
Debt Service	7,031,888	-	7,031,888
Public Works	537,766	-	537,766
Economic/Job Development	2,957,184	-	2,957,184
Loans	1,123,454	-	1,123,454
Culture and Recreation	272,128	-	272,128
Capital Improvements	334,234	-	334,234
Unrestricted	320,877	1,908,970	2,229,847
<b>Total Net Position</b>	<b>\$ 52,598,465</b>	<b>\$ 8,654,595</b>	<b>\$ 61,253,060</b>

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

## Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 876,547	\$ 96,640	\$ 2,117	\$ -	\$ (777,790)		\$ (777,790)
Public Safety	2,340,868	115,348	19,969	206,213	(1,999,338)		(1,999,338)
Public Works	3,255,062	493,830	443,872	1,368,084	(949,276)		(949,276)
Culture and Recreation	462,987	25,512	34,241	-	(403,234)		(403,234)
Economic Development	1,682,752	11,412	26,398	-	(1,644,942)		(1,644,942)
Other	40,879	-	-	-	(40,879)		(40,879)
Interest & Fees on Long-Term Debt	302,927	-	-	-	(302,927)		(302,927)
<b>Total Governmental Activities</b>	<b>\$ 8,962,023</b>	<b>\$ 742,742</b>	<b>\$ 526,597</b>	<b>\$ 1,574,297</b>	<b>\$ (6,118,387)</b>		<b>\$ (6,118,387)</b>
<b>Business-Type Activities</b>							
Water Operations	\$ 1,232,450	\$ 1,591,915	\$ -	\$ -	\$ -	\$ 359,465	\$ 359,465
Sanitary Sewer Operations	841,910	1,330,837	-	-	-	488,927	488,927
Garbage & Other Enterprise	523,331	620,740	-	-	-	97,409	97,409
<b>Total Business-Type Activities</b>	<b>\$ 2,597,691</b>	<b>\$ 3,543,492</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 945,801</b>	<b>\$ 945,801</b>
<b>Total Primary Government</b>	<b>\$ 11,559,714</b>	<b>\$ 4,286,234</b>	<b>\$ 526,597</b>	<b>\$ 1,574,297</b>	<b>\$ (6,118,387)</b>	<b>\$ 945,801</b>	<b>\$ (5,172,586)</b>
<b>General Revenues</b>							
Taxes							
Property taxes					\$ 2,057,639	\$ -	\$ 2,057,639
Sales taxes					2,504,389	-	2,504,389
Unrestricted grants & contributions					688,859	-	688,859
Unrestricted Investment Earnings					99,200	8,440	107,640
Miscellaneous					87,517	272	87,789
Transfers					679,453	(679,453)	-
<b>Total General Revenues and Transfers</b>					<b>\$ 6,117,057</b>	<b>\$ (670,741)</b>	<b>\$ 5,446,316</b>
Change in Net Position					\$ (1,330)	\$ 275,060	\$ 273,730
Net Position - January 1					\$ 52,527,244	\$ 8,379,535	\$ 60,906,779
Prior Period Adjustments					\$ 72,551	\$ -	\$ 72,551
Net Position - January 1, as restated					\$ 52,599,795	\$ 8,379,535	\$ 60,979,330
Net Position - December 31					\$ 52,598,465	\$ 8,654,595	\$ 61,253,060

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

Balance Sheet – Governmental Funds  
December 31, 2018

	Major Funds						Total Governmental Funds
	General Fund	Sales Tax Economic Develop.	Revolving Loan Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
<b>ASSETS</b>							
Cash, Cash Equivalents, & Investments	\$ 274,049	\$ 1,674,249	\$ 633,028	\$ 2,503,732	\$ -	\$ 3,563,099	\$ 8,648,157
Accounts Receivable	418	-	-	-	-	18,340	18,758
Intergovernmental Receivable	220,981	48,976	-	-	854,708	-	1,124,665
Due from Other Funds	1,394,214	-	-	-	-	-	1,394,214
Loans Receivable, Net	-	403,306	665,005	-	-	55,143	1,123,454
Taxes Receivable	14,935	-	-	26,799	-	10,927	52,661
Special Assessments Receivable	-	-	-	4,564,650	-	-	4,564,650
<b>Total Assets</b>	<b>\$ 1,904,597</b>	<b>\$ 2,126,531</b>	<b>\$ 1,298,033</b>	<b>\$ 7,095,181</b>	<b>\$ 854,708</b>	<b>\$ 3,647,509</b>	<b>\$ 16,926,559</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>							
<b>Liabilities</b>							
Accounts Payable & Accrued Expenses	\$ 27,652	\$ -	\$ -	\$ -	\$ 26,564	\$ 37,213	\$ 91,429
Salaries Payable and Accrued Benefits	77,304	-	-	-	-	-	77,304
RLF Payable	-	-	500	-	-	-	500
Due to Other Funds	-	-	-	-	1,394,214	-	1,394,214
<b>Total Liabilities</b>	<b>\$ 104,956</b>	<b>\$ -</b>	<b>\$ 500</b>	<b>\$ -</b>	<b>\$ 1,420,778</b>	<b>\$ 37,213</b>	<b>\$ 1,563,447</b>
<b>Deferred Inflows of Resources</b>							
Taxes Receivable	\$ 14,935	\$ -	\$ -	\$ 26,799	\$ -	\$ 10,927	\$ 52,661
Special Assessments Receivable	-	-	-	4,564,650	-	-	4,564,650
<b>Total Deferred Inflows of Resources</b>	<b>\$ 14,935</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,591,449</b>	<b>\$ -</b>	<b>\$ 10,927</b>	<b>\$ 4,617,311</b>
<b>Total Liabilities &amp; Deferred Inflows of Resources</b>	<b>\$ 119,891</b>	<b>\$ -</b>	<b>\$ 500</b>	<b>\$ 4,591,449</b>	<b>\$ 1,420,778</b>	<b>\$ 48,140</b>	<b>\$ 6,180,758</b>
<b>Fund Balances</b>							
<b>Non-Spendable</b>							
Loans Receivable	\$ -	\$ 403,306	\$ 665,005	\$ -	\$ -	\$ 55,143	\$ 1,123,454
<b>Restricted</b>							
Debt Service	-	-	-	2,503,732	-	-	2,503,732
Sales Tax Funds/Economic Development	-	1,723,225	-	-	-	739,021	2,462,246
Public Works	-	-	-	-	-	609,719	609,719
Culture & Recreation	-	-	-	-	-	378,919	378,919
Public Safety	-	-	-	-	-	391,092	391,092
Other/General Government	-	-	-	-	-	225,075	225,075
<b>Committed</b>							
Sales Tax Funds/Economic Development	-	-	632,528	-	-	-	632,528
Equipment Replacement/Capital Projects	-	-	-	-	-	835,665	835,665
Public Safety	-	-	-	-	-	20,314	20,314
Public Works	-	-	-	-	-	344,421	344,421
<b>Unassigned</b>							
General Fund	1,784,706	-	-	-	-	-	1,784,706
Negative Fund Balances	-	-	-	-	(566,070)	-	(566,070)
<b>Total Fund Balances</b>	<b>\$ 1,784,706</b>	<b>\$ 2,126,531</b>	<b>\$ 1,297,533</b>	<b>\$ 2,503,732</b>	<b>\$ (566,070)</b>	<b>\$ 3,599,369</b>	<b>\$ 10,745,801</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,904,597</b>	<b>\$ 2,126,531</b>	<b>\$ 1,298,033</b>	<b>\$ 7,095,181</b>	<b>\$ 854,708</b>	<b>\$ 3,647,509</b>	<b>\$ 16,926,559</b>

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

## Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position December 31, 2018

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<b>Total Fund Balances of Governmental Funds</b>			\$ 10,745,801
Total <i>Net Position</i> reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.			51,684,223
Property taxes & special assessments receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows in the funds.			
Taxes Receivable	\$	52,661	
Special Assessments Receivable		<u>4,564,650</u>	4,617,311
Net pension and OPEB obligations are not due and payable in the current period, and therefore are not reported in the governmental funds.			(3,047,660)
Deferred outflows and inflows of resources related to pensions & OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.			
Pension & OPEB Deferred Inflows of Resources	\$	(306,088)	
Pension & OPEB Deferred Outflows of Resources		<u>1,298,637</u>	992,549
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.			
Long Term Debt	\$	(11,663,289)	
Interest Payable		(63,293)	
Retainages Payable		(501,431)	
Compensated Absences Payable		<u>(165,746)</u>	<u>(12,393,759)</u>
<b>Total Net Position - Governmental Activities</b>			<u>\$ 52,598,465</u>

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

## Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds For the Year Ended December 31, 2018

	Major Funds						Total Governmental Funds
	General Fund	Sales Tax Economic Develop.	Revolving Loan Fund	Debt Service Funds	Capital Projects Funds	Other Governmental Funds	
<b>REVENUES</b>							
Taxes	\$ 1,369,555	\$ -	\$ -	\$ 33,525	\$ -	\$ 672,609	\$ 2,075,689
Sales Taxes	-	626,762	-	-	1,754,934	122,693	2,504,389
Special Assessment Taxes	22,579	-	-	1,139,713	-	-	1,162,292
Licenses, Permits and Fees	513,830	-	-	-	-	-	513,830
Fines and Forfeits	114,096	-	-	-	-	-	114,096
Intergovernmental	1,165,237	-	-	-	734,394	256,432	2,156,063
Charges for Services	54,667	-	-	-	-	60,149	114,816
Interest Income	57,947	19,684	15,083	-	-	6,486	99,200
Miscellaneous	14,184	6,424	1,621	17,495	1,500	46,293	87,517
<b>Total Revenues</b>	<b>\$ 3,312,095</b>	<b>\$ 652,870</b>	<b>\$ 16,704</b>	<b>\$ 1,190,733</b>	<b>\$ 2,490,828</b>	<b>\$ 1,164,662</b>	<b>\$ 8,827,892</b>
<b>EXPENDITURES</b>							
Current							
General Government	\$ 682,218	\$ -	\$ -	\$ -	\$ -	\$ 70,945	\$ 753,163
Public Safety	1,936,241	-	-	-	-	410,150	2,346,391
Public Works/Highways & Streets	663,869	-	-	-	-	621,117	1,284,986
Culture and Recreation	111,583	-	-	-	-	327,326	438,909
Economic Development	-	1,077,611	226,194	-	-	358,914	1,662,719
Other	38,257	-	-	2,622	-	-	40,879
Capital Outlay	-	-	-	-	6,208,480	45,000	6,253,480
Debt Service							
Principal	-	-	-	1,776,716	-	26,817	1,803,533
Interest	-	-	-	266,342	-	14,022	280,364
Fees	-	-	-	14,039	-	-	14,039
<b>Total Expenditures</b>	<b>\$ 3,432,168</b>	<b>\$ 1,077,611</b>	<b>\$ 226,194</b>	<b>\$ 2,059,719</b>	<b>\$ 6,208,480</b>	<b>\$ 1,874,291</b>	<b>\$ 14,878,463</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (120,073)	\$ (424,741)	\$ (209,490)	\$ (868,986)	\$ (3,717,652)	\$ (709,629)	\$ (6,050,571)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In	\$ 675,372	\$ -	\$ -	\$ 751,087	\$ 553,501	\$ 986,799	\$ 2,966,759
Bond Proceeds	-	-	-	-	1,242,990	-	1,242,990
Transfers Out	(262,871)	(267,310)	(5,000)	(532,353)	(1,099,825)	(57,068)	(2,224,427)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 412,501</b>	<b>\$ (267,310)</b>	<b>\$ (5,000)</b>	<b>\$ 218,734</b>	<b>\$ 696,666</b>	<b>\$ 929,731</b>	<b>\$ 1,985,322</b>
<b>Net Change in Fund Balances</b>	<b>\$ 292,428</b>	<b>\$ (692,051)</b>	<b>\$ (214,490)</b>	<b>\$ (650,252)</b>	<b>\$ (3,020,986)</b>	<b>\$ 220,102</b>	<b>\$ (4,065,249)</b>
Fund Balances - January 1	\$ 1,492,278	\$ 2,818,582	\$ 1,512,023	\$ 3,153,984	\$ 2,454,916	\$ 3,379,267	\$ 14,811,050
Fund Balances - December 31	\$ 1,784,706	\$ 2,126,531	\$ 1,297,533	\$ 2,503,732	\$ (566,070)	\$ 3,599,369	\$ 10,745,801

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2018

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**Net Change in Fund Balances - Total Governmental Funds** \$ (4,065,249)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Asset Capital Outlay	\$ 6,433,106	
Transfers to Enterprise Funds	(62,879)	
Current Year Depreciation Expense	<u>(1,727,562)</u>	4,642,665

In the statement of activities, the loss on a sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from these sales.

(38,364)

Repayment reduces long-term liabilities in the statement of net position, while the issuance of debt increases long-term liabilities in the statement of net position.

Repayment of Debt	\$ 1,803,533	
Debt Proceeds	<u>(1,242,990)</u>	560,543

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Change in Compensated Absences	\$ 1,730	
Net Change in Retainages Payable	(231,660)	
Net Change in Interest Payable	<u>(8,524)</u>	(238,454)

The net pension & OPEB liability, and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Change in Net Pension & OPEB Liability	\$ (386,359)	
Change in Deferred Outflows of Resources for pensions & OPEB	106,311	
Change in Deferred Inflows of Resources for pensions & OPEB	<u>(35,771)</u>	(315,819)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Change in Taxes Receivable	\$ (18,050)	
Net Change in Special Assessments Receivable	<u>(528,602)</u>	<u>(546,652)</u>

**Change in Net Position of Governmental Activities** \$ (1,330)

The notes to the financial statements are an integral part of this financial statement.

**CITY OF WAHPETON**

Statement of Net Position – Proprietary Funds  
December 31, 2018

	Business-Type Activities - Enterprise Funds			
	Water Operating	Sanitary Sewer Operating	Other Enterprise Funds	Total
<b>ASSETS</b>				
Current Assets				
Cash, Cash Equivalents, and Investments	\$ 1,419,060	\$ 807,133	\$ 251,028	\$ 2,477,221
Utility Billings Receivable	123,988	107,867	54,041	285,896
Total Current Assets	<u>\$ 1,543,048</u>	<u>\$ 915,000</u>	<u>\$ 305,069</u>	<u>\$ 2,763,117</u>
Noncurrent Assets				
Capital Assets, Net	\$ 3,801,818	\$ 3,655,807	\$ -	\$ 7,457,625
Total Assets	<u>\$ 5,344,866</u>	<u>\$ 4,570,807</u>	<u>\$ 305,069</u>	<u>\$ 10,220,742</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Derived from Pensions & OPEB	\$ 285,143	\$ 161,458	\$ 13,975	\$ 460,576
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable & Accrued Expenses	\$ 16,707	\$ 1,231	\$ 35,446	\$ 53,384
Accrued Interest Payable	5,017	917	-	5,934
Long Term Debt	115,000	20,000	-	135,000
Compensated Absences Payable	4,528	1,972	96	6,596
Total Current Liabilities	<u>\$ 141,252</u>	<u>\$ 24,120</u>	<u>\$ 35,542</u>	<u>\$ 200,914</u>
Noncurrent Liabilities				
Long Term Debt	\$ 487,000	\$ 90,000	\$ -	\$ 577,000
Compensated Absences Payable	40,750	17,747	868	59,365
Net Pension & OPEB Liability	669,178	378,911	32,797	1,080,886
Total Noncurrent Liabilities	<u>\$ 1,196,928</u>	<u>\$ 486,658</u>	<u>\$ 33,665</u>	<u>\$ 1,717,251</u>
Total Liabilities	<u>\$ 1,338,180</u>	<u>\$ 510,778</u>	<u>\$ 69,207</u>	<u>\$ 1,918,165</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Derived from Pensions & OPEB	\$ 67,208	\$ 38,056	\$ 3,294	\$ 108,558
<b>NET POSITION</b>				
Net Investment in Capital Assets	\$ 3,199,818	\$ 3,545,807	\$ -	\$ 6,745,625
Unrestricted	1,024,803	637,624	246,543	1,908,970
Total Net Position	<u>\$ 4,224,621</u>	<u>\$ 4,183,431</u>	<u>\$ 246,543</u>	<u>\$ 8,654,595</u>

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds			
	Water	Sanitary	Other	Enterprise
	Operating	Sewer Operating	Enterprise Funds	
<b>OPERATING REVENUES</b>				
Charges for Sales and Services	\$ 1,591,915	\$ 1,330,837	\$ 620,740	\$ 3,543,492
<b>OPERATING EXPENSES</b>				
Salaries and Wages	\$ 514,855	\$ 282,682	\$ 34,359	\$ 831,896
Benefits	138,541	83,475	7,370	229,386
Heating Fuel, Gas and Oil	6,847	6,304	2,229	15,380
Utilities - Electricity and Telephone	64,402	62,510	130,095	257,007
Streetlight Maintenance	-	-	6,965	6,965
Service Contracts	9,518	9,218	-	18,736
Waste Removal Contract	-	-	282,800	282,800
Supplies & Postage	10,094	8,526	3,706	22,326
Repairs and Maintenance	11,167	51,719	-	62,886
Equipment & Maintenance/Repairs	26,586	1,105	4,511	32,202
Wells/Testing Fees	9,984	-	-	9,984
Insurance and Safety	16,218	-	-	16,218
Chemicals	141,420	71,071	34,777	247,268
Professional Fees and Other Service Charges	2,400	12,659	-	15,059
Meters/Hydrants/Wells/Lagoons/Manholes	25,553	9,379	-	34,932
Utility Main/Water Main Valve Repairs	15,126	21,441	-	36,567
Yard Waste Collections	-	-	7,629	7,629
Miscellaneous Operating	23,823	30,372	8,890	63,085
Credit Card Processing Fees	6,891	7,507	-	14,398
Curbside Repairs	11,629	-	-	11,629
Depreciation	176,824	180,258	-	357,082
Total Operating Expenses	\$ 1,211,878	\$ 838,226	\$ 523,331	\$ 2,573,435
Operating Income	\$ 380,037	\$ 492,611	\$ 97,409	\$ 970,057
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income	\$ 5,617	\$ 2,823	\$ -	\$ 8,440
Miscellaneous Income	272	-	-	272
Interest Expense	(17,234)	(3,084)	-	(20,318)
Service Charges and Administration Fees	(3,338)	(600)	-	(3,938)
Total Nonoperating Revenue (Expenses)	\$ (14,683)	\$ (861)	\$ -	\$ (15,544)
Income Before Transfers	\$ 365,354	\$ 491,750	\$ 97,409	\$ 954,513
<b>TRANSFERS</b>				
Transfers In	\$ 31,439	\$ 31,439	\$ -	\$ 62,878
Transfers Out	(367,871)	(263,501)	(110,959)	(742,331)
Change in Net Position	\$ 28,922	\$ 259,688	\$ (13,550)	\$ 275,060
Total Net Position - January 1	\$ 4,195,699	\$ 3,923,743	\$ 260,093	\$ 8,379,535
Total Net Position - December 31	\$ 4,224,621	\$ 4,183,431	\$ 246,543	\$ 8,654,595

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

Statement of Cash Flows – Proprietary Funds  
For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds			
	Water	Sanitary	Other	Total
	Operating	Sewer Operating	Enterprise Funds	Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers and Users	\$ 1,585,582	\$ 1,288,114	\$ 618,562	\$ 3,492,258
Payments to Suppliers	(379,262)	(314,321)	(500,085)	(1,193,668)
Payments to Employees	(546,379)	(324,609)	(37,687)	(908,675)
Net Cash Provided by Operating Activities	\$ 659,941	\$ 649,184	\$ 80,790	\$ 1,389,915
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to Other Funds	\$ (367,871)	\$ (263,501)	\$ (110,959)	\$ (742,331)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Miscellaneous Income	\$ 272	\$ -	\$ -	\$ 272
Principal Paid on Capital Debt	(131,000)	(20,000)	-	(151,000)
Interest Paid on Capital Debt	(18,325)	(3,250)	-	(21,575)
Fees Paid on Capital Debt	(3,338)	(600)	-	(3,938)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (152,391)	\$ (23,850)	\$ -	\$ (176,241)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest Received	\$ 5,617	\$ 2,823	\$ -	\$ 8,440
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 145,296	\$ 364,656	\$ (30,169)	\$ 479,783
Cash and Cash Equivalents, January 1	\$ 1,273,764	\$ 442,477	\$ 281,197	\$ 1,997,438
Cash and Cash Equivalents, December 31	\$ 1,419,060	\$ 807,133	\$ 251,028	\$ 2,477,221
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>				
Operating Income	\$ 380,037	\$ 492,611	\$ 97,409	\$ 970,057
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	176,824	180,258	-	357,082
Change in Assets and Liabilities				
Utility Billings Receivable	(6,333)	(42,723)	(2,178)	(51,234)
Changes in Pension Items	100,971	40,491	3,971	145,433
Payables	2,397	(22,510)	(18,483)	(38,596)
Compensated Absences Payable	6,045	1,057	71	7,173
Net Cash Provided (Used) by Operating Activities	\$ 659,941	\$ 649,184	\$ 80,790	\$ 1,389,915

The notes to the financial statements are an integral part of this financial statement.

# CITY OF WAHPETON

Statement of Fiduciary Assets and Liabilities – Agency Funds  
December 31, 2018

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	Agency Funds
<b>Assets</b>	
Cash and Cash Equivalents	<u>\$ 14,302</u>
<b>Liabilities</b>	
Benefits Payable	\$ 5,974
Due to Other Entities	<u>8,328</u>
Total Liabilities	<u>\$ 14,302</u>

The notes to the financial statements are an integral part of this statement.

# CITY OF WAHPETON

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Wahpeton ("City"), North Dakota operates under a Home Rule Charter adopted in 1988. The home rule charter enables the City to enact ordinances. Additionally, the city operates under the modern city council form of government as outlined in North Dakota Century Code chapter 40-04.1. The financial statements of the city have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. 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. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body 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.

### **B. Basis of Presentation**

*Government-wide statements.* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the City's funds including its fiduciary funds and blended component unit. Separate statements for each fund category-*governmental, proprietary* and *fiduciary*-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Sales Tax Economic Development Fund - This fund accounts for the use of city sales tax for various purposes within the city, primarily to make capital improvements and to make economic development grants and loans. The primary revenue source in this fund includes restricted sales tax dollars.

## CITY OF WAHPETON

### Notes to the Financial Statements – Continued

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Revolving Loan Fund – This fund accounts for the use of the money set aside for various types of economic development loans. The primary source of revenue is sales tax funds committed by action of the city council at the highest decision level of authority.

Debt Service Fund - This fund accounts for the costs of paying off the City's bond obligations. The major sources of revenues are special assessments.

Capital Projects Fund - This fund accounts for the costs of paying for the City's construction projects. The major sources of revenues are state grants/reimbursements.

The City reports the following major enterprise funds:

Water Fund - This fund accounts for the activity of the Water Department. The department operates the water distribution system in the City of Wahpeton.

Sewer Fund - This fund accounts for the activities of the City's sewer collection system.

Additionally, the City reports the following fund type:

*Agency Funds.* These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's agency funds are used to account for property taxes collected on behalf of other governments.

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

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 Investments**

Cash includes amounts in demand deposits and money market accounts.

The investments of the City during the years ended December 31, 2018 consist of certificates of deposit stated at cost with maturities in excess of three months.

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**E. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund and sewer fund in the enterprise fund statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<b>Governmental and Business-Type Activities</b>	<b>Years</b>
Buildings	50
Equipment	15
Office Equipment	3
Vehicles	5
Infrastructure	10 - 50

**F. Compensated Absences**

Full-time and permanent part-time employees are granted vacation benefits at a specified rate per calendar month of full-time service. Full-time employees earn sick leave benefits at the rate of one working day per month. Permanent part-time employees earn sick leave benefits at the rate of half a working day per month.

**G. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

When applicable, in the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**H. Pension**

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.

**I. 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, 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.

**J. Fund Balances**

*Minimum Fund Balance Policy.* The City established a 15% - 20% general fund carryover balance target to help with financial stability. The 15% - 20% fund balance range is a part of the City's fiscal policies. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the City. Unassigned general fund balance of \$1,784,706 at December 31, 2018 represented 52% of annual 2018 expenditures.

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

*Fund Balance Spending Policy.* It is the policy of the City to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

*Restricted Fund Balances.* Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3<sup>rd</sup> parties (state and federal governments for various grants & reimbursements).

*Committed Fund Balances.* Committed fund balances are shown by primary function on the balance sheet. They have been committed by the governing boards city council action. They are committed in special revenue funds for various sales tax reserve funds, other reserve funds, and police department funds.

*Non-spendable Fund Balances.* Non-spendable fund balances are reported for loans receivable in the Sales Tax Economic Development and Revolving Loan major funds.

*Unassigned Fund Balances.* Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

**K. Net Position**

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.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

**L. Interfund Transactions**

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

**NOTE 2: PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were necessary to properly state the beginning balance of construction in progress and building accumulated depreciation of governmental activities.

The net effect of all prior period adjustments for governmental activities are as follows:

<b>Governmental Activities</b>	<b>Amounts</b>
<b>Beginning Net Position, as previously reported</b>	\$ 52,527,244
Adjustments to restate the January 1, 2018 Net Position	
Capital Assets - Construction in Progress	64,229
Capital Assets - Building - Accumulated Depreciation	8,322
<b>Net Position January 1, as restated</b>	<b>\$ 52,599,795</b>

**NOTE 3: DEPOSITS**

**Custodial Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the City would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The City does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

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

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

At year ended December 31, 2018, the City's carrying amount of deposits totaled \$11,139,184, and the bank balances totaled \$11,209,563. Of the bank balances, \$1,513,771 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The City does not have a formal deposit policy that limits maturities as a means of managing exposure to potential fair value losses arising from increasing interest rates.

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, 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 the type listed above.
- (c) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

As of December 31, 2018, the City held certificates of deposits in the amount of \$1,009,542

**NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2018:

<b>Asset</b>	<b>Quotes Priced in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Total</b>
CDs	\$ -	\$ 1,009,542	\$ -	\$ 1,009,542

**NOTE 5: PROPERTY TAXES**

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; 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 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.

**NOTE 6: LOAN RECEIVABLE**

The City issues loans for various economic development projects. The City sets up a payment schedule with interest for the loans to be repaid. The City had the following loan activity for the year ended December 31, 2018:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
Sales Tax Loans	\$ 793,000	\$ -	\$ 79,000	\$ 714,000
PACE Loans	371,692	107,831	21,074	458,449
Help Loans	4,843	-	4,843	-
RLF & FLEX Loans	987,575	85,396	186,926	886,045
<b>Total Loans Receivable, Gross</b>	<b>\$ 2,157,110</b>	<b>\$ 193,227</b>	<b>\$ 291,843</b>	<b>\$ 2,058,494</b>
Less: Allowance for Doubtful Accounts	\$ -	\$ (935,040)	\$ -	\$ (935,040)
<b>Total Loans Receivable, Net</b>	<b>\$ 2,157,110</b>	<b>\$ (741,813)</b>	<b>\$ 291,843</b>	<b>\$ 1,123,454</b>

March 3, 2014 the City council entered into a development agreement with Phoenix Housing Wahpeton II, LLC. The objective of the agreement was the restoration and rehabilitation of six historic buildings located in the center of the City's downtown business district on the north side of Dakota Ave. referred to as the 400 Block. A similar project with the same developer was successfully completed in 2013 resulting in the renovation of three historic properties located in the 500 block of Dakota Ave.

The dilapidated condition of the buildings and the estimated cost of renovation limited the potential for private and/or conventional financing of the project. Real estate mortgages were originated with Eastern Dakota Housing Alliance in the amount of \$175,000 in second position, and a mortgage in the amount of \$240,000 funded by the City sales tax loan fund. The City originated a \$790,000 10 year mortgage at 1% with terms granting loan forgiveness of \$79,000 annually for each full year the developer owns the project and is in compliance with the terms and conditions of the development agreement.

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

On May 22, 2018 the City was notified by the developer, Phoenix Housing Wahpeton II, LLC, of its intent to default on the development agreement in June 2018. A meeting of the creditors and legal counsel was called by Starion on July 1, 2018; a legal remedy will be executed in 2020.

**NOTE 7 CAPITAL ASSETS**

**Governmental Activities**

The following is a summary of changes in capital assets for the year ended 2018:

	<b>Balance Jan 1 Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfer to Business-Type Activities</b>	<b>Balance Dec 31</b>
<b>Governmental Activities</b>					
<i>Capital assets not being depreciated</i>					
Land	\$ 3,966,442	\$ -	\$ -	\$ -	\$ 3,966,442
Construction in Progress	1,792,485	5,849,421	8,032	(62,879)	7,570,995
<b>Total capital assets not being depreciated</b>	<b>5,758,927</b>	<b>5,849,421</b>	<b>8,032</b>	<b>(62,879)</b>	<b>11,537,437</b>
<i>Capital assets being depreciated</i>					
Buildings	\$ 5,397,360	\$ 91,481	\$ -	\$ -	\$ 5,488,841
Equipment	5,226,297	451,737	87,033	-	5,591,001
Vehicles	442,092	40,468	-	-	482,560
Infrastructure	44,745,398	-	-	-	44,745,398
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 55,811,147</b>	<b>\$ 583,686</b>	<b>\$ 87,033</b>	<b>\$ -</b>	<b>\$ 56,307,800</b>
<i>Less accumulated depreciation</i>					
Buildings	\$ 1,898,295	\$ 95,085	\$ -	\$ -	\$ 1,993,380
Equipment	3,315,347	275,293	56,700	-	3,533,940
Vehicles	355,681	31,823	-	-	387,504
Infrastructure	8,920,829	1,325,361	-	-	10,246,190
<b>Total Accumulated Depreciation</b>	<b>\$ 14,490,152</b>	<b>\$ 1,727,562</b>	<b>\$ 56,700</b>	<b>\$ -</b>	<b>\$ 16,161,014</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 41,320,995</b>	<b>\$ (1,143,876)</b>	<b>\$ 30,333</b>	<b>\$ -</b>	<b>\$ 40,146,786</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 47,079,922</b>	<b>\$ 4,705,545</b>	<b>\$ 38,365</b>	<b>\$ (62,879)</b>	<b>\$ 51,684,223</b>

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

<b>Governmental Activities</b>	<b>2018</b>
General Government	\$ 83,762
Public Safety	140,253
Public Works	170,186
Culture and Recreation	8,000
Infrastructure	1,325,361
<b>Total Depreciation Expense</b>	<b>\$ 1,727,562</b>

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**Business-Type Activities**

The following is a summary of changes in capital assets for the year ended 2018:

<b>Business-Type Activities (Water Fund)</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfer from Governmental Activities</b>	<b>Balance Dec 31</b>
<i>Capital assets being depreciated</i>					
Buildings	\$ 2,693,790	\$ -	\$ -	\$ -	\$ 2,693,790
Equipment	1,815,526	-	-	-	1,815,526
Vehicles	55,900	-	-	-	55,900
Infrastructure	3,003,892	-	-	31,439	3,035,331
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 7,569,108</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,439</b>	<b>\$ 7,600,547</b>
<i>Less accumulated depreciation</i>					
Buildings	\$ 1,112,604	\$ 53,876	\$ -	\$ -	\$ 1,166,480
Equipment	1,530,488	33,587	-	-	1,564,075
Vehicles	32,338	5,891	-	-	38,229
Infrastructure	946,475	83,470	-	-	1,029,945
<b>Total Accumulated Depreciation</b>	<b>\$ 3,621,905</b>	<b>\$ 176,824</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,798,729</b>
<b>Water Fund Capital Assets, Net</b>	<b>\$ 3,947,203</b>	<b>\$ (176,824)</b>	<b>\$ -</b>	<b>\$ 31,439</b>	<b>\$ 3,801,818</b>

<b>Business-Type Activities (Sewer Fund)</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfer from Governmental Activities</b>	<b>Balance Dec 31</b>
<i>Capital assets being depreciated</i>					
Buildings	\$ 62,942	\$ -	\$ -	\$ -	\$ 62,942
Equipment	2,837,099	-	-	-	2,837,099
Vehicles	47,799	-	-	-	47,799
Infrastructure	4,793,701	-	-	31,439	4,825,140
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 7,741,541</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,439</b>	<b>\$ 7,772,980</b>
<i>Less accumulated depreciation</i>					
Buildings	\$ 16,366	\$ 1,259	\$ -	\$ -	\$ 17,625
Equipment	2,434,204	44,769	-	-	2,478,973
Vehicles	29,901	5,966	-	-	35,867
Infrastructure	1,456,444	128,264	-	-	1,584,708
<b>Total Accumulated Depreciation</b>	<b>\$ 3,936,915</b>	<b>\$ 180,258</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,117,173</b>
<b>Sewer Fund Capital Assets, Net</b>	<b>\$ 3,804,626</b>	<b>\$ (180,258)</b>	<b>\$ -</b>	<b>\$ 31,439</b>	<b>\$ 3,655,807</b>

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**NOTE 8: LONG-TERM LIABILITIES**

The following changes occurred in long-term liabilities for the year ended 2018:

**Governmental Activities**

<b>Governmental Activities</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
Long Term Debt					
Special Assessment Bonds	\$ 11,629,047	\$ 959,916	\$ 1,752,265	\$ 10,836,698	\$ 1,477,880
Leases Payable	594,786	-	43,241	551,545	44,633
Loans Payable	-	283,074	8,028	275,046	12,368
<b>Total Long Term Debt</b>	<b>\$ 12,223,833</b>	<b>\$ 1,242,990</b>	<b>\$ 1,803,534</b>	<b>\$ 11,663,289</b>	<b>\$ 1,534,881</b>
Net Pension & OPEB Liability	\$ 2,661,301	\$ 386,359	\$ -	\$ 3,047,660	\$ -
Compensated Absences *	167,476	-	1,730	165,746	16,575
<b>Total Governmental Activities</b>	<b>\$ 15,052,610</b>	<b>\$ 1,629,349</b>	<b>\$ 1,805,264</b>	<b>\$ 14,876,695</b>	<b>\$ 1,551,456</b>

**Business-Type Activities**

<b>Water Fund</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
Long Term Debt					
Revenue Bonds	\$ 733,000	\$ -	\$ 131,000	\$ 602,000	\$ 115,000
Compensated Absences *	39,233	6,045	-	45,278	4,528
Net Pension & OPEB Liability	535,953	133,225	-	669,178	-
<b>Total Water Fund</b>	<b>\$ 1,308,186</b>	<b>\$ 139,270</b>	<b>\$ 131,000</b>	<b>\$ 1,316,456</b>	<b>\$ 119,528</b>

<b>Sewer Fund</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
Long Term Debt					
Revenue Bonds	\$ 130,000	\$ -	\$ 20,000	\$ 110,000	\$ 20,000
Compensated Absences *	\$ 18,662	\$ 1,057	\$ -	\$ 19,719	\$ 1,972
Net Pension & OPEB Liability	329,000	49,911	-	378,911	-
<b>Total Sewer Fund</b>	<b>\$ 477,662</b>	<b>\$ 50,968</b>	<b>\$ 20,000</b>	<b>\$ 508,630</b>	<b>\$ 21,972</b>

<b>Nonmajor Enterprise Funds</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
Compensated Absences *	\$ 895	\$ 69	\$ -	\$ 964	\$ 96
Net Pension & OPEB Liability	27,764	5,033	-	32,797	-
<b>Total Other Funds</b>	<b>\$ 28,659</b>	<b>\$ 5,102</b>	<b>\$ -</b>	<b>\$ 33,761</b>	<b>\$ 96</b>

\* The change in compensated absences is shown as a net change due to changes in salary prohibit exact calculations.

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

The annual requirements to amortize the outstanding long-term debt at December 31, 2018 is as follows:

<b>GOVERNMENTAL ACTIVITIES</b>						
<b>Year Ending Dec. 31st</b>	<b>Spec. Assmt. Bonds</b>		<b>Capital Leases</b>		<b>Loans Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 1,477,880	\$ 233,142	\$ 44,633	\$ 17,200	\$ 12,368	\$ 5,416
2020	1,465,666	205,130	46,070	15,763	12,617	5,167
2021	1,111,436	175,860	113,364	14,469	12,871	4,914
2022	1,056,196	151,958	30,241	10,597	13,129	4,655
2023	906,970	129,188	31,164	9,675	13,393	4,391
2024 - 2028	3,097,000	374,536	170,667	33,526	71,114	17,808
2029 - 2033	1,371,550	101,366	115,406	7,110	78,554	10,368
2034 - 2038	180,000	21,000	-	-	61,000	2,417
2039 - 2043	170,000	6,525	-	-	-	-
<b>Total</b>	<b>\$ 10,836,698</b>	<b>\$ 1,398,705</b>	<b>\$ 551,545</b>	<b>\$ 108,340</b>	<b>\$ 275,046</b>	<b>\$ 55,136</b>

<b>BUSINESS-TYPE ACTIVITIES</b>						
<b>Year Ending Dec. 31st</b>	<b>Revenue Bonds</b>				<b>Total</b>	
	<b>Water Fund</b>		<b>Sewer Fund</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 115,000	\$ 15,050	\$ 20,000	\$ 2,750	\$ 135,000	\$ 17,800
2020	118,000	12,175	20,000	2,250	138,000	14,425
2021	120,000	9,225	20,000	1,750	140,000	10,975
2022	123,000	6,225	25,000	1,250	148,000	7,475
2023	126,000	3,150	25,000	625	151,000	3,775
<b>Total</b>	<b>\$ 602,000</b>	<b>\$ 45,825</b>	<b>\$ 110,000</b>	<b>\$ 8,625</b>	<b>\$ 712,000</b>	<b>\$ 54,450</b>

**NOTE 9: CONDUIT DEBT**

**Industrial Development Revenue Bonds**

From time to time, the city has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the city, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The aggregate amount outstanding of these types of bonds at December 31, 2018 is \$5,115,468.

**Economic Development Loans / Governor’s Revolving Fund Loans**

From time to time, the City has lent its name to private industries to help them secure community development block grant loans administered by the Lake Agassiz Regional Council and loans from the Governor’s Revolving Fund. The loans are issued for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans, ownership of the acquired facilities transfers to the private-sector entity. The City is not obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

The total outstanding principal balance of the CDBG loans issued to various industries totaled \$32,898 at December 31, 2018.

**NOTE 10: PENSION PLAN**

**General Information about the NDPERS 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. 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

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

**Member and Employer Contributions**

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

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

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

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

At December 31, 2018, the City reported a liability of \$3,955,249 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the City's proportion was .234370 percent, which was an increase of .023069 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$627,870. At December 31, 2018 the City 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 Experience	\$ 10,469	\$ 134,565
Changes of Assumptions	1,427,763	56,453
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	19,243
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	162,300	197,076
Employer Contributions Subsequent to the Measurement Date	109,768	-
<b>Total</b>	<b>\$ 1,710,300</b>	<b>\$ 407,337</b>

\$109,768 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

2019	382,461
2020	329,837
2021	274,677
2022	180,869
2023	25,351
2024	-

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**Actuarial Assumptions**

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

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 – 39	7.50%
	40 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

**Discount rate**

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

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

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

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

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

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

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Proportionate Share of the Net Pension Liability	\$ 5,374,499	\$ 3,955,249	\$ 2,770,973

**Pension Plan Fiduciary Net Position**

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

**NOTE 11: OPEB PLAN**

**General Information about the OPEB Plan**

**North Dakota Public Employees Retirement System**

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

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

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

**OPEB Benefits**

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

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

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

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

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

At December 31, 2018, City reported a liability of \$173,297 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the City's proportion was .220041 percent, which was an increase of .020654 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018 the City recognized OPEB expense of \$23,348. At December 31, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 5,188	\$ 3,581
Changes of Assumptions	14,219	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	-	3,728
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	11,930	-
Employer Contributions Subsequent to the Measurement Date	17,575	-
<b>Total</b>	<b>\$ 48,912</b>	<b>\$ 7,309</b>

\$17,575 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019

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

2019	3,385
2020	3,385
2021	3,385
2022	5,030
2023	4,728
Thereafter	4,115

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**Actuarial assumptions**

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

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

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	.10%

**Discount rate**

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

**Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate**

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

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Proportionate Share of the Net OPEB Liability	\$ 219,263	\$ 173,297	\$ 133,893

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**NOTE 12: TRANSFERS**

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2018:

	Transfers In	Transfers Out
<b>Governmental Funds</b>		
General Fund	\$ 675,372	\$ 262,871
Sales Tax Economic Development Fund	-	267,310
Revolving Loan Fund	-	5,000
Debt Service Funds	751,087	532,353
Capital Projects Funds	553,501	1,099,825
Total Non-Major Governmental Funds	986,799	57,069
<b>Business-Type Funds</b>		
Water Operating	-	367,871
Sewer Operating	-	263,501
Total Non-Major Enterprise Funds	-	110,959
<b>Total Transfers</b>	<b>\$ 2,966,759</b>	<b>\$ 2,966,759</b>

Transfers are done primarily for the following reasons:

- Transfer unrestricted revenues to finance various programs.
- Transfer money to help finance various construction projects.

The following transfers of capital assets occurred during the year:

	Transfers In	Transfers Out
<b>Governmental Activities</b>	\$ -	\$ 62,878
<b>Business-Type Funds</b>		
Water Operating	31,439	-
Sewer Operating	31,439	-
<b>Total Capital Asset Transfers</b>	<b>\$ 62,878</b>	<b>\$ 62,878</b>

**NOTE 13: FUND DEFICITS**

The following funds were in a deficit cash fund balance position at December 31, 2018:

<b>Governmental Funds</b>	
Capital Project Fund	\$ (1,420,778)

The City will relieve the deficits in the construction funds with future special assessment collections. The remaining fund deficits will be relieved with future tax collections, transfers, debt issuances and/or fees collected.

**NOTE 14: FRANCHISE AGREEMENTS**

The City of Wahpeton has various franchise fees owed to it from various companies. The franchise fees are based on services provided and fees collected at 5% of cable television revenues, 3% of natural gas revenues and 3% of the electric rate revenues. The Electric and Natural Gas Franchise fees are limited not to exceed \$200 per month per account by Council Resolution biennially.

**CITY OF WAHPETON**

Notes to the Financial Statements – Continued

**NOTE 15: COMMITMENTS**

<b>Project</b>	<b>Project Amount</b>	<b>Completed</b>	<b>Outstanding</b>	<b>Retainage</b>
Capital Improvements				
Gateway Improvements	\$ 210,000	\$ -	\$ 210,000	\$ -
Reconstruction of 3rd Ave. N.	2,972,855	2,540,347	432,508	283,661
Reconstruction of 3rd Ave. N.	21,140	-	21,140	-
WTP Improvements Phase I	215,236	200,038	15,198	11,607
WTP Improvements Phase I	9,131	-	9,131	-
Reconstruction of 3rd Ave. N.	158,457	118,889	39,568	-
Reconstruction of 3rd Ave. N.	557,034	420,879	136,154	-
Eastside Sanitary Sewer Phase A	293,557	261,488	32,069	-
Mill & Overlay 16th Ave. N.	90,462	62,858	27,605	-
Lift Station No. 1 Wet Well Lining Proj	58,462	25,499	32,963	-
Wheatland Rd. Rosewood Shared Use Path	101,841	13,018	88,823	-
Eastside Sanitary Sewer Phase A	1,589,465	1,342,561	246,903	149,174
16th, 17th & Commerce ST/STW17-235 Fund 656	6,500	-	6,500	-
Waste Water Odor Control Study	28,665	4,148	24,517	-
Lift Station No. 1 Wet Well Lining Proj	248,686	-	248,686	-
16th, 17th & Commerce ST/STW17-235 Fund 656	9,750	-	9,750	-
Levee Encroachments Ph. I	735,897	684,174	51,723	-
Levee Encroachments Ph. I	(51,723)	-	(51,723)	-
Reconstruction of 3rd Ave. N.	73,051	22,438	50,613	2,493
WTP Limehandling Proj.	130,000	115,185	14,816	-
WTP Improvements Phase I	856,000	801,504	54,496	54,496
<b>Total Capital Improvements</b>	<b>\$ 8,314,466</b>	<b>\$ 6,613,026</b>	<b>\$ 1,701,440</b>	<b>\$ 501,431</b>

**NOTE 16: RISK MANAGEMENT**

The City is exposed to various risks of loss relating 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 of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$10,000,000 per occurrence for general liability and automobile, and up to \$3,540,506 for public assets (mobile equipment and portable property).

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City 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 \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City has worker’s compensation with the North Dakota Workforce Safety and Insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**NOTE 17: CONTINGENT LIABILITIES**

The City of Wahpeton is a defendant in various lawsuits incident to its operations. In the opinion of the Counsel and management, most claims against the City not covered by insurance would not materially affect the financial condition of the City.

**CITY OF WAHPETON**

Budgetary Comparison Schedule – General Fund  
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Taxes	\$ 1,346,053	\$ 1,346,053	\$ 1,369,555	\$ 23,502
Special Assessment Taxes	-	-	22,579	22,579
Licenses, Permits and Fees	509,366	509,366	513,830	4,464
Fines and Forfeits	89,000	89,000	114,096	25,096
Intergovernmental	1,062,775	1,062,775	1,165,237	102,462
Charges for Services	53,434	53,434	54,667	1,233
Interest Income	11,000	11,000	57,947	46,947
Miscellaneous Income	4,300	4,300	14,184	9,884
<b>Total Revenues</b>	<b>\$ 3,075,928</b>	<b>\$ 3,075,928</b>	<b>\$ 3,312,095</b>	<b>\$ 236,167</b>
<b>Expenditures</b>				
Current				
General Government	\$ 726,964	\$ 726,964	\$ 682,218	\$ 44,746
Public Safety	1,938,151	1,938,151	1,936,241	1,910
Public Works	680,451	680,451	663,869	16,582
Culture and Recreation	142,700	142,700	111,583	31,117
Other	26,000	26,000	38,257	(12,257)
<b>Total Expenditures</b>	<b>\$ 3,514,266</b>	<b>\$ 3,514,266</b>	<b>\$ 3,432,168</b>	<b>\$ 82,098</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (438,338)</b>	<b>\$ (438,338)</b>	<b>\$ (120,073)</b>	<b>\$ 318,265</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	\$ 670,924	\$ 670,924	\$ 675,372	\$ 4,448
Transfers Out	(232,586)	(232,586)	(262,871)	(30,285)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 438,338</b>	<b>\$ 438,338</b>	<b>\$ 412,501</b>	<b>\$ (25,837)</b>
<b>Net Change in Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 292,428</b>	<b>\$ 292,428</b>
<b>Fund Balance - January 1</b>	<b>\$ 1,148,284</b>	<b>\$ 1,148,284</b>	<b>\$ 1,492,278</b>	<b>\$ 343,994</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,148,284</b>	<b>\$ 1,148,284</b>	<b>\$ 1,784,706</b>	<b>\$ 636,422</b>

The accompanying required supplementary information notes are an integral part of this schedule.

**CITY OF WAHPETON**Budgetary Comparison Schedule – Sales Tax  
For the Year Ended December 31, 2018

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	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Sales taxes	\$ 525,000	\$ 525,000	\$ 626,762	\$ 101,762
Interest income	2,500	2,500	19,684	17,184
Miscellaneous income	5,530	5,530	6,424	894
Total Revenues	<u>\$ 533,030</u>	<u>\$ 533,030</u>	<u>\$ 652,870</u>	<u>\$ 119,840</u>
<b>Expenditures</b>				
Current				
Economic Development	<u>\$ 279,942</u>	<u>\$ 363,614</u>	<u>\$ 1,077,611</u>	<u>\$ (713,997)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 253,088</u>	<u>\$ 169,416</u>	<u>\$ (424,741)</u>	<u>\$ (594,157)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>\$ (231,088)</u>	<u>\$ (267,311)</u>	<u>\$ (267,310)</u>	<u>\$ 1</u>
Net Change in Fund Balances	<u>\$ 22,000</u>	<u>\$ (97,895)</u>	<u>\$ (692,051)</u>	<u>\$ (594,156)</u>
Fund Balance - January 1	<u>\$ 2,818,582</u>	<u>\$ 2,818,582</u>	<u>\$ 2,818,582</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 2,840,582</u>	<u>\$ 2,720,687</u>	<u>\$ 2,126,531</u>	<u>\$ (594,156)</u>

The accompanying required supplementary information notes are an integral part of this schedule.

**CITY OF WAHPETON**

Budgetary Comparison Schedule – BTA Revolving Fund  
For the Year Ended December 31, 2018

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	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Interest income	\$ 17,485	\$ 17,485	\$ 15,083	\$ (2,402)
Miscellaneous income	1,050	1,050	1,621	571
Total Revenues	<u>\$ 18,535</u>	<u>\$ 18,535</u>	<u>\$ 16,704</u>	<u>\$ (1,831)</u>
<b>Expenditures</b>				
Current				
Economic Development	<u>\$ 5,000</u>	<u>\$ 5,155</u>	<u>\$ 226,194</u>	<u>\$ (221,039)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 13,535</u>	<u>\$ 13,380</u>	<u>\$ (209,490)</u>	<u>\$ (222,870)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>\$ (5,000)</u>	<u>\$ (5,000)</u>	<u>\$ (5,000)</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ 8,535</u>	<u>\$ 8,380</u>	<u>\$ (214,490)</u>	<u>\$ (222,870)</u>
Fund Balance - January 1	<u>\$ 1,512,888</u>	<u>\$ 1,512,023</u>	<u>\$ 1,512,023</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 1,521,423</u>	<u>\$ 1,520,403</u>	<u>\$ 1,297,533</u>	<u>\$ (222,870)</u>

The accompanying required supplementary information notes are an integral part of this schedule.

**CITY OF WAHPETON**

Schedule of Employer's Share of Net Pension Liability and Employer Contributions  
 For the Year Ended December 31, 2018

**Schedule of Employer's Share of Net Pension Liability  
 ND Public Employee's Retirement System  
 Last 10 Fiscal Years**

	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered-Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.234370%	\$ 3,955,249	\$ 2,407,727	164.27%	62.80%
2017	0.211301%	3,396,301	2,157,055	157.45%	61.98%
2016	0.239829%	2,337,367	2,416,910	96.71%	70.46%
2015	0.665753%	1,746,890	2,288,686	76.33%	77.15%
2014	0.655469%	1,636,591	2,172,028	75.35%	77.70%

**Schedule of Employer Contributions  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years**

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	City's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	177,339	154,725	\$ 22,614	\$ 2,407,727	6.43%
2017	156,413	167,969	(11,556)	2,157,055	7.79%
2016	174,980	187,909	(12,929)	2,416,910	7.77%
2015	173,844	163,725	10,119	2,288,686	7.15%
2014	154,648	154,648	-	2,172,028	7.12%

**CITY OF WAHPETON**

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions  
 For the Year Ended December 31, 2018

**Schedule of Employer's Share of Net OPEB Liability  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years**

	City's Proportion of the Net OPEB Liability (Asset)	City's Proportionate Share of the Net OPEB (Asset)	City's Covered-Employee Payroll	City's Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.220041%	\$ 173,297	\$ 2,407,727	7.20%	61.89%
2017	0.199387%	157,717	2,157,055	7.31%	59.78%

**Schedule of Employer Contributions  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years**

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	City's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 28,241	\$ 24,773	3,468	\$ 2,407,727	1.03%
2017	25,074	26,875	(1,801)	2,157,055	1.25%

## CITY OF WAHPETON

Notes to the Required Supplementary Information  
For the Year Ended December 31, 2018

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### **NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **Budgetary Information:**

The governing board adopts an annual budget on a basis consistent with GAAP, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 for the general fund, each special revenue fund and each debt service fund of the municipality. The city is required to present the adopted and final amended revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The governing body of each municipality, annually or before August 10<sup>th</sup>, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7<sup>th</sup> at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7<sup>th</sup> in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7<sup>th</sup>, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10<sup>th</sup>, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).
- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. He governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

**CITY OF WAHPETON**

Notes to the Required Supplementary Information - Continued

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

The city's governing board approved budget amendments for various governmental funds expenditures and transfers out that are overspent from original budget amounts.

<b>EXPENDITURES &amp; TRANSFERS OUT</b>			
	<b>Original Budget</b>	<b>Budget Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds</b>			
Major Funds			
Debt Service Fund	\$ 630,580	\$ 316,385	\$ 946,965
Capital Projects Fund	5,892	6,187,385	6,193,277
Revolving Loan Fund	10,000	155	10,155
Non Major Funds			
Employee Safety Committee	1,500	21,725	23,225
Fire Dept. Bldg. & Equipment Levy	260,473	87,930	348,403
Real Estate Levy	28,000	15,880	43,880
Snow/Flood Emergency Levy	-	10,735	10,735
City Share of Specials Levy	30,615	8,375	38,990
Meter Deposits Trust	1,000	80	1,080
Miscellaneous Fund	300	24,715	25,015
Vector Control District Levy	-	3	3
Tax Increment Fund	264,141	129,655	393,796
Job Development Levy	12,500	52,240	64,740
Weed Maintenance Levy	-	7,930	7,930
Sales Tax Econ. Development Fund	511,030	119,895	630,925
Sales Tax Recreation	41,500	27,405	68,905
Sales Tax Mini-Match Reserve	-	36,515	36,515
Sales Tax H.E.L.P. Housing	-	1,805	1,805
150th Anniversary Reserve	-	6,420	6,420
Police Dept. Special Equipment	-	5,050	5,050
Police Dept. Canine Unit	2,500	1,695	4,195
Clubhouse Maintenance	5,000	4,725	9,725
Sidewalk Maintenance	-	4,500	4,500
C.E.R.T.	-	20	20

# CITY OF WAHPETON

Schedule of Fund Activity – Cash Basis  
For the Year Ended December 31, 2018

	Balance Jan 1	Revenue	Transfers In	Debt Proceeds	Transfers Out	Expenditures	Balance Dec 31
<b>GOVERNMENTAL FUNDS</b>							
<b>Major Funds</b>							
General Fund	\$ 1,347,130.01	\$ 3,273,825.96	\$ 675,372.21	\$ -	\$ 262,871.15	\$ 3,469,732.55	\$ 1,563,724.48
Special Revenue Funds							
Sales Tax Econ. Development Fund	\$ 2,782,902.32	\$ 639,574.57	\$ -	\$ -	\$ 267,310.22	\$ 363,611.47	\$ 2,791,555.20
Revolving Loan Fund	1,512,023.35	16,703.22	-	-	5,000.00	5,153.97	1,518,572.60
<b>Total Major Special Revenue Funds</b>	<b>\$ 4,294,925.67</b>	<b>\$ 656,277.79</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 272,310.22</b>	<b>\$ 368,765.44</b>	<b>\$ 4,310,127.80</b>
Debt Service Fund							
Special Assessment Deficiency Levy	\$ 215,074.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215,074.50
Tax Increment Fund	157,613.98	257,052.50	-	-	391,172.05	2,622.50	20,871.93
BDSGC Cart Sublease	3,875.00	17,495.00	-	-	-	20,994.00	376.00
R/I 10708 Westside TIF	464,994.94	7,268.32	-	-	-	202,255.00	270,008.26
R/I 11011 Series 20111 (Refi 03)	266,197.91	1,922.03	-	-	2,751.22	265,368.72	-
R/I 11111 Series 2011B Flood	352,224.79	-	293,318.00	-	-	293,288.17	352,254.62
R/I 11212 Series 2012A	235,282.17	54,502.80	154,831.00	-	-	231,040.67	213,575.30
R/I 11314 Series 2014	254,131.43	157,802.30	-	-	-	127,197.67	284,736.06
R/I 11415 Series 2015	95,692.72	52,499.31	-	-	-	54,881.67	93,310.36
R/I 11516 Series 2016 (Refi 10910)	704,685.66	454,921.34	59,489.00	-	-	457,071.67	762,024.33
R/I 11617 Series 2017	307,665.57	121,052.49	187,320.00	-	138,429.51	309,176.90	168,431.65
R/I 11716 BND Loan 2016	96,545.45	59,554.98	-	-	-	46,686.65	109,413.78
R/I 11817 BND Loan 2017	-	-	9,000.00	-	-	8,892.19	107.81
R/I 11918 DWSRF 2018A	-	-	4,000.00	-	-	3,475.32	524.68
R/I 12018 CWSRF 2018B	-	-	37,000.00	-	-	36,457.51	542.49
R/I 12118 Series 2018E	-	6,661.28	6,128.91	-	-	310.50	12,479.69
<b>Total Debt Service Fund</b>	<b>\$ 3,153,984.12</b>	<b>\$ 1,190,732.35</b>	<b>\$ 751,086.91</b>	<b>\$ -</b>	<b>\$ 532,352.78</b>	<b>\$ 2,059,719.14</b>	<b>\$ 2,503,731.46</b>
Capital Projects Fund							
Sales Tax for Infrastructure	\$ 2,934,359.19	\$ 809,775.91	\$ -	\$ -	\$ 159,430.00	\$ -	\$ 3,584,705.10
1/2 Sales Tax	1,103,067.31	907,930.53	-	-	884,266.42	-	1,126,731.42
5-2-97 (Flood Phase II)	(278,595.98)	16,819.23	-	-	-	273,975.69	(535,752.44)
3rd Ave. N. Recon. Proj. # ST11-180	(389,975.70)	-	-	-	-	3,046,261.18	(3,436,236.88)
16th Ave. 11th St. to Highway 210	-	-	138,429.51	-	-	138,429.51	-
E. Central Streets 12-01-04	(393.00)	-	393.00	-	-	-	-
N. Central Streets 2013 13-01-04	(253.00)	-	253.00	-	-	-	-
E. Sanitary Sewer 13-02-02	(939,606.78)	-	-	1,127,989.76	50,000.00	806,755.99	(668,373.01)
Vector Control Capital Equipment	(11,641.39)	-	30,221.39	-	-	18,580.00	-
Water Treatment Plant Facility Plan	(64,875.42)	-	-	-	-	-	(64,875.42)
WTP Lime Silo & Slaker	(119,270.83)	-	-	-	-	1,275,505.83	(1,394,776.66)
Dangerous Bldg. 120 6th St.	195,347.58	-	-	-	-	92.00	195,255.58
Alley Construction ST17-234	(45,040.24)	-	-	46,629.00	636.72	952.04	-
Evergreen West ST12-234	-	-	-	68,371.00	5,492.19	62,878.81	-
Westside Master Plan 2017	(27,950.02)	-	-	-	-	58,426.98	(86,377.00)
16th Ave. N. Mill Overlay TIF	-	-	376,172.05	-	-	376,172.05	-
Elm CT Mill & Overlay ST17-236	(161.00)	-	8,032.16	-	-	7,871.16	-
River Pointe Acres	-	1,500.00	-	-	-	40,816.13	(39,316.13)
Westgate Commons ST18-238	-	-	-	-	-	27,072.90	(27,072.90)
Wheatland Trail/Rosewood Loop	-	-	-	-	-	13,179.42	(13,179.42)
Gateway Signage & Improvements	-	-	-	-	-	29,477.28	(29,477.28)
Lift St. No. 1 Wet Well Lining & PLC	-	-	-	-	-	25,720.76	(25,720.76)
Advance Warning Signals 9th St. S.	-	-	-	-	-	6,312.00	(6,312.00)
E. Side Sanitary Sewer Ph. B	-	-	-	-	-	-	-
<b>Total Capital Projects Fund</b>	<b>\$ 2,355,010.72</b>	<b>\$ 1,736,025.67</b>	<b>\$ 553,501.11</b>	<b>\$ 1,242,989.76</b>	<b>\$ 1,099,825.33</b>	<b>\$ 6,208,479.73</b>	<b>\$ (1,420,777.80)</b>
<b>Total Major Funds</b>	<b>\$ 11,151,050.52</b>	<b>\$ 6,856,861.77</b>	<b>\$ 1,979,960.23</b>	<b>\$ 1,242,989.76</b>	<b>\$ 2,167,359.48</b>	<b>\$ 12,106,696.86</b>	<b>\$ 6,956,805.94</b>

Continued on next page...

# CITY OF WAHPETON

## Schedule of Fund Activity – Cash Basis - Continued

For the Year Ended December 31, 2018

### Nonmajor Funds

Special Revenue Funds									
Library Levy	\$ 110,687.63	\$ 261,911.56	\$ 14,555.11	\$ -	\$ -	\$ 237,784.75	\$ 149,369.55		
Employee Safety Committee	8,876.96	17,047.28	5,000.00	-	-	23,224.33	7,699.91		
Capital Improvements	760,114.55	6,485.75	240,816.04	-	-	171,751.10	835,665.24		
Fire Dept. Bldg. & Equipment Levy	315,392.92	345,161.17	38,390.00	-	-	348,402.73	350,541.36		
Real Estate Levy	76,344.39	28,854.36	-	-	38,390.00	5,487.50	61,321.25		
Special Street Maintenance	159,845.83	-	159,430.00	-	8,678.16	194,985.45	115,612.22		
Snow/Flood Emergency Levy	42,826.81	753.75	-	-	-	10,730.33	32,850.23		
Levee Maintenance	-	-	248,797.42	-	-	248,797.42	-		
City Share of Specials Levy	68,050.99	31,576.18	-	-	-	38,986.33	60,640.84		
Special Transportation Funding	293,455.88	-	-	-	-	8,998.00	284,457.88		
Unemployment Compensation Reserve	20,186.09	-	-	-	-	38.35	20,147.74		
Economic Development Department	-	1,800.00	192,310.22	-	-	194,110.22	-		
Miscellaneous Fund	1,657.60	25,175.52	-	-	-	25,010.41	1,822.71		
Vector Control District Levy	1,555.98	123.66	-	-	-	2.40	1,677.24		
1% Lodging Tax (Additional 1-1-08)	77,355.28	25,001.87	-	-	5,000.00	26,187.60	71,169.55		
Job Development Levy	162,357.42	29,320.72	-	-	-	64,737.52	126,940.62		
Weed Maintenance Levy	133,555.82	21,023.68	-	-	-	7,929.00	146,650.50		
Lodging Tax	77,271.23	50,003.72	-	-	-	35,562.68	91,712.27		
Sales Tax Recreation	172,184.13	122,693.34	-	-	-	68,900.45	225,977.02		
Sales Tax Defaults Reserve	39,528.98	-	-	-	-	-	39,528.98		
Sales Tax Housing & Dev. Agmt.	233,297.75	-	-	-	-	-	233,297.75		
Sales Tax Mini-Match Reserve	21,252.96	1,024.00	75,000.00	-	-	36,510.45	60,766.51		
Sales Tax H.E.L.P. Housing	172,262.08	291.20	-	-	-	1,805.00	170,748.28		
150th Anniversary Reserve	29,218.06	9,665.00	10,000.00	-	-	6,419.39	42,463.67		
Special Assessment Assistance Fund	100,000.00	-	-	-	-	-	100,000.00		
Police Dept. Special Equipment	4,769.91	11,545.15	2,500.00	-	-	5,047.74	13,767.32		
Police Dept. Canine Unit	7,183.50	-	-	-	-	4,192.88	2,990.62		
Clubhouse Maintenance	8,294.23	5,000.00	-	-	-	9,721.55	3,572.68		
Sidewalk Maintenance	62,168.14	1,400.00	-	-	-	4,500.00	59,068.14		
1% Restaurant Tax Enhancement	215,996.45	168,803.35	-	-	5,000.00	94,447.53	285,352.27		
C.E.R.T.	3,575.86	-	-	-	-	19.38	3,556.48		

Total Nonmajor Funds \$ 3,379,267.43 \$ 1,164,661.26 \$ 986,798.79 \$ - \$ 57,068.16 \$ 1,874,290.49 \$ 3,599,368.83

Total Governmental Funds \$ 14,530,317.95 \$ 8,021,523.03 \$ 2,966,759.02 \$ 1,242,989.76 \$ 2,224,427.64 \$ 13,980,987.35 \$ 10,556,174.77

### BUSINESS-TYPE FUNDS

#### Major Funds

Water Fund									
Water Operating	\$ 1,363,782.81	\$ 1,594,348.62	\$ -	\$ -	\$ 367,871.00	\$ 1,079,625.80	\$ 1,510,634.63		
Meter Deposits Trust	13,326.15	3,455.72	-	-	-	1,075.14	15,706.73		

Total Water Fund \$ 1,377,108.96 \$ 1,597,804.34 \$ - \$ - \$ 367,871.00 \$ 1,080,700.94 \$ 1,526,341.36

Sewer Fund \$ 483,879.82 \$ 1,333,660.18 \$ - \$ - \$ 263,501.00 \$ 640,270.45 \$ 913,768.55

#### Nonmajor Funds

Waste Removal Operating	\$ 102,958.44	\$ 313,722.44	\$ -	\$ -	\$ 62,333.99	\$ 297,192.51	\$ 57,154.38		
Waste Reduction	50,230.65	26,134.10	-	-	5,159.00	12,808.87	58,396.88		
Vector Control	107,285.43	113,335.23	-	-	30,221.39	71,235.87	119,163.40		
Street Lighting	53,573.92	167,548.43	-	-	13,245.00	137,523.32	70,354.03		

Total Nonmajor Funds \$ 314,048.44 \$ 620,740.20 \$ - \$ - \$ 110,959.38 \$ 518,760.57 \$ 305,068.69

Total Business-Type Funds \$ 2,175,037.22 \$ 3,552,204.72 \$ - \$ - \$ 742,331.38 \$ 2,239,731.96 \$ 2,745,178.60

### AGENCY FUNDS

Airport 4 Mill Levy	\$ 4,599.22	\$ 72,717.72	\$ -	\$ -	\$ -	\$ 72,092.29	\$ 5,224.65		
Annual Reserve WH Fund	-	-	-	-	-	-	-		
Handicapped Parking Fines	-	5.00	-	-	-	5.00	-		
Golf Course Donations	3,103.53	-	-	-	-	-	3,103.53		

Total Agency Funds \$ 7,702.75 \$ 72,722.72 \$ - \$ - \$ - \$ 72,097.29 \$ 8,328.18

Total Primary Government \$ 16,713,057.92 \$ 11,646,450.47 \$ 2,966,759.02 \$ 1,242,989.76 \$ 2,966,759.02 \$ 16,292,816.60 \$ 13,309,681.55

**CITY OF WAHPETON**

Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Passed through the State Department of Transportation			
National Priority Safety Programs	20.616	HSPID1810	\$ 13,266
National Priority Safety Programs	20.616	HSPOP1805	1,922
National Priority Safety Programs	20.616	HSPSC1807	1,500
National Priority Safety Programs	20.616	HSPID1910	<u>1,109</u>
Total U.S. Department of Transportation			<u>\$ 17,797</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
Passed through the State Water Commission			
Garrison Diversion Unit	15.518	2074	<u>\$ 717,575</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Direct Federal Funding			
Assistance to Firefighters Grant	97.014	N/A	<u>\$ 205,213</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed Through Environmental Protection Agency Office of Water			
Capitalization Grants for Drinking Water State Recovery Funds	66.468	008-1310-222	<u>\$ 263,643</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,204,228</u></u>

## **CITY OF WAHPETON**

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018

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### **NOTE 1: BASIS OF PRESENTATION / ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2018. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net position of the City. Expenditures represent only the federally funded portions of the program. City records should be consulted to determine amounts expended or matched from non-federal sources.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the *Uniform Guidance*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

### **NOTE 3: PASS-THROUGH GRANT NUMBER**

For Federal programs marked "N/A", the City was unable to obtain a pass-through grant number or the pass-through number was not applicable.



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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

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Independent Auditor's Report

Board of City Commissioners  
City of Wahpeton  
Wahpeton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Wahpeton as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Wahpeton's basic financial statements, and have issued our report thereon dated June 4, 2019.

**Internal Control Over Financial Reporting**

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 audit findings and questioned costs*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 the deficiencies described in the accompanying *schedule of audit findings and questioned costs* as items 2018-001, 2018-002 and 2018-005 to be material weaknesses.

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 the deficiencies described in the accompanying *schedule of audit findings and questioned costs* as items 2018-003 and 2018-004 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Wahpeton'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 WAHPETON**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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**City of Wahpeton’s Response to Findings**

City of Wahpeton’s response to the findings identified in our audit is described in the accompanying *schedule of audit findings and questioned costs*. City of Wahpeton’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.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
June 4, 2019



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAMS; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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Independent Auditor's Report

Board of City Commissioners  
City of Wahpeton  
Wahpeton, North Dakota

**Report on Compliance for the Major Federal Program**

We have audited the City of Wahpeton's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Wahpeton's major federal program for the year ended December 31, 2018. The City of Wahpeton's major federal program is identified in the summary of auditor's results.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City of Wahpeton's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Wahpeton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Wahpeton's compliance.

**Opinion on the Major Federal Program**

In our opinion, the City of Wahpeton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

## **CITY OF WAHPETON**

Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance – Continued

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### **Report on Internal Control Over Compliance**

Management of the City of Wahpeton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Wahpeton's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Wahpeton's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the City of Wahpeton as of and for the year ended December 31, 2018, and have issued our report thereon dated June 4, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
June 4, 2019

**CITY OF WAHPETON**

Summary of Auditor's Results  
For the Year Ended December 31, 2018

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**Financial Statements**

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Internal control over financial reporting**

Material weaknesses identified?	<u>  X  </u> Yes	<u>      </u> None	Noted
Significant deficiencies identified not considered to be material weaknesses?	<u>  X  </u> Yes	<u>      </u> None	Noted
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> None	Noted

**Federal Awards**

Internal Control Over Major Programs

Material weaknesses identified?	<u>      </u> Yes	<u>  X  </u> None	noted
Reportable conditions identified not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> None	noted
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with CFR §200.516 (Uniform Guidance) requirements?	<u>      </u> Yes	<u>  X  </u> None	noted

**Identification of Major Programs**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.518	Garrison Diversion Unit

Dollar threshold used to distinguish between Type A and B programs:     \$ 750,000    

Auditee qualified as low-risk auditee?        Yes   X   No

# CITY OF WAHPETON

Schedule of Audit Findings and Questioned Costs  
For the Year Ended December 31, 2018

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## **Section I - Financial Statement Findings**

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### **2018-001 – FINANCIAL STATEMENT PREPARATION**

#### **Condition**

The City of Wahpeton does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

#### **Criteria**

Management is responsible for establishing proper internal control over the preparation of the City of Wahpeton's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

#### **Cause**

Management is not fully knowledgeable of the process of preparing financial statements in compliance with GAAP.

#### **Effect**

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

#### **Recommendation**

We recommend the City of Wahpeton design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

#### **City of Wahpeton's Response**

Agree. The City of Wahpeton is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We will attempt to prepare the financial statements and note disclosures in the future.

### **2018-002 – ADJUSTING JOURNAL ENTRIES**

#### **Condition**

Material auditor-identified adjusting entries (fund level modified accrual basis to government wide full accrual basis) were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

#### **Criteria**

The City of Wahpeton is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

**CITY OF WAHPETON**

Schedule of Audit Findings and Questioned Costs – Continued

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**Cause**

Management is not fully knowledgeable of identifying necessary adjustments to present the financial statements in compliance with GAAP.

**Effect**

Inadequate internal controls over recording of transactions affects the City of Wahpeton’s ability to detect misstatements in amounts that could be material in relation to the financial statements.

**Recommendation**

We recommend the City of Wahpeton design and implement internal controls to identify the necessary adjustments to present the financial statements in compliance with GAAP.

**City of Wahpeton’s Response**

Agree. City of Wahpeton does not have adequate resources to obtain proper internal controls and training to make and identify all necessary adjustments. We will continue to try to identify all items in need of adjustment at year end to comply with GAAP.

**2018-003 – CAPITAL ASSET & RETAINAGE MAINTENANCE**

**Condition**

Material errors were found in the City of Wahpeton's capital asset and retainage schedules.

**Criteria**

The Committee of Sponsoring Organizations (COSO) offers important guidance relating to maintaining a proper system internal controls. Proper internal control activities includes maintaining and reviewing capital asset records for government activities and business-type activities including annual additions, deletions, depreciation, year-end balances, and retainage schedules to ensure that they are up to date and free of misstatements.

**Cause**

There is not a second official designated to review the capital asset and retainage schedules after they have been prepared.

**Effect**

A lack of controls surrounding the preparation of the capital asset and retainage schedules could lead to an increased risk of fraud or error.

**Recommendation**

We recommend that the City of Wahpeton carefully prepare and review capital asset and retainage schedules to ensure they are free of material misstatements. We further recommend that reviews of the capital asset records are completed to ensure capital asset schedules are accurate.

**City of Wahpeton’s Response**

Agree. The City of Wahpeton is currently in the process of updating a policy relating to commitments and approving capital asset year end reports.

**CITY OF WAHPETON**

Schedule of Audit Findings and Questioned Costs – Continued

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**2018-004 – LACK OF CREDIT CARD RECEIPT APPROVAL**

**Condition**

The City of Wahpeton officials are not properly approving credit card purchases.

**Criteria**

The City of Wahpeton's credit card policy states, "charge receipts should be expense coded, supervisor approved and submitted to the Finance Assistant prior to the due date."

**Cause**

Officials may have been approving the transaction but there is not always a formal authorization noted on the receipts. A lack of controls exists surrounding credit card transaction authorizations.

**Effect**

A lack of proper authorization could result in an increased risk of fraud or error.

**Recommendation**

We recommend the City of Wahpeton follow its own policy of having a supervisor approve the credit card transactions by signing the applicable receipts.

**City of Wahpeton's Response**

Agree. We will ensure that each transaction is approved before they get paid.

**2018-005 – ECONOMIC LOAN POLICY**

**Condition**

The City of Wahpeton does not have a policy regarding the issuance of new economic loans and does not evaluate the collectability of outstanding loans on a periodic basis. Adjustments for allowance for doubtful accounts of \$935,040 were proposed to the finance director relating to loans receivable that were considered uncollectible.

**Criteria**

Proper internal controls relating to the issuance of economic loans should include a review of the loan agreements for unacceptable risk to the City of Wahpeton and of the applications individually. The application review should include an assessment of the specific collectability risk, underlying collateral, objectives, and the reputation of the borrower.

The net realizable value of loans receivable should include a risk-driven assessment of the collectability of each loan, the risk of noncompliance with the loan agreement, and whether an allowance of doubtful accounts is deemed necessary.

**Cause**

The City does not currently have a formal loan issuance and evaluation policy surrounding loan receivables and may not have considered that one is needed.

**Effect**

The City of Wahpeton could issue a loan to a borrower that has an unacceptably high risk. Further, the lack of a proper periodic collectability evaluation of the loan receivable balances may cause the financial statements to be materially misstated.

**CITY OF WAHPETON**

Schedule of Audit Findings and Questioned Costs – Continued

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**Recommendation**

We recommend the City of Wahpeton implement a policy relating to the issuance of new economic loans that would ensure responsible fiscal management and accountability. We further recommend that a proper periodic evaluation of outstanding loans with risk-driven criteria is completed and documented.

**City of Wahpeton's Response**

Agree. The City of Wahpeton will adopt a policy relating to the economic loan issuances and evaluations to ensure proper fiscal management of public funds.

**Section II - Federal Award Findings and Questioned Costs**

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No matters were reported.



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203.  
FARGO, NORTH DAKOTA 58103

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## GOVERNANCE COMMUNICATION

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Board of City Commissioners  
City of Wahpeton  
Wahpeton, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wahpeton, North Dakota, for the year ended December 31, 2018 which collectively comprise the City of Wahpeton's basic financial statements, and have issued our report thereon dated June 4, 2019. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance**

As stated in our engagement letter dated March 2, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Wahpeton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Wahpeton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

### **Significant Accounting Policies/Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Wahpeton are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

**Corrected and Uncorrected Misstatements**

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

<b>GOVERNMENTAL ACTIVITIES</b>			
Modified Accrual Adjustments			
<b>Client Adjustments</b>			
Intergovernmental Receivable	\$	1,124,665	
Revenue			\$ 1,124,665
<b>Audit Adjustments</b>			
Expenditures	\$	935,040	
Allowance for Doubtful Accounts			\$ 935,040
Government Wide Adjustments			
<b>Audit Adjustments</b>			
Net Position	\$	1,177,990	
Capital Assets			\$ 1,177,990
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Audit Adjustments</b>			
Expenditures	\$	35,446	
Accounts Payable			\$ 35,446

**Disagreements with Management**

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

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated June 4, 2019.

**Management Consultations with Other Independent Accountants**

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

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Other Audit Findings or Issues**

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

The following presents our informal recommendation:

\* \* \* \* \*

**FRAUD RISK ASSESSMENT**

The City of Wahpeton does not currently prepare a fraud risk assessment of the entire entity. If the City of Wahpeton does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the City of Wahpeton’s goals in reporting, reliance, and accountability.

We recommend the City of Wahpeton prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

\* \* \* \* \*

This information is intended solely for the use of the Board of City Commissioners and management of the City of Wahpeton, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the City of Wahpeton for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the City of Wahpeton.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
June 4, 2019

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