

**CITY OF THOMPSON
THOMPSON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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CITY OF THOMPSON, NORTH DAKOTA
LIST OF OFFICIALS
AS OF DECEMBER 31, 2017

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Desmond Sporbert	Mayor	6/20
Wayne Wilson	Council Member	6/18
Dean Larimer	Council Member	6/20
Travis Fretheim	Council Member	6/18
Jeremy Hughes	Council Member	6/20
Barb Robinson	Auditor	Appointed
Richard Olson	Attorney	Appointed
Gayle Bergeron	Municipal Judge	6/18
David Kurtz	Police Officer	Appointed
Terri Herbert	City Administrator	Appointed



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Thompson
Thompson, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Thompson, North Dakota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Thompson, North Dakota, as of December 31, 2017, 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 information, schedule of employer's share of net pension liability and schedule of employer contributions to North Dakota Public Employees Retirement System as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2018, on our consideration of the City of Thompson, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Thompson's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Thompson, North Dakota's internal control over financial reporting and compliance.



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

June 13, 2018

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,342,593	\$ 527,939	\$ 1,870,532
Investments	37,662	-	37,662
Receivables:			
Accounts receivable	-	27,841	27,841
Property taxes	2,678	-	2,678
Special assessments	2,451,286	-	2,451,286
Total current assets	<u>3,834,219</u>	<u>555,780</u>	<u>4,389,999</u>
Capital assets-not being depreciated			
Land	18,947	157,736	176,683
Capital assets-being depreciated			
Buildings and improvements	479,044	573,940	1,052,984
Infrastructure	3,122,221	-	3,122,221
Vehicles and equipment	245,870	114,358	360,228
Less: accumulated depreciation	(937,004)	(544,272)	(1,481,276)
Net capital assets	<u>2,929,078</u>	<u>301,762</u>	<u>3,230,840</u>
TOTAL ASSETS	<u>6,763,297</u>	<u>857,542</u>	<u>7,620,839</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - Main	76,914	16,276	93,190
Cost sharing defined benefit pension plan - Law Enforcement	35,219	-	35,219
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>112,133</u>	<u>16,276</u>	<u>128,409</u>
LIABILITIES			
Accounts payable	17,135	35,635	52,770
Accrued salaries and benefits	8,138	575	8,713
Accrued interest payable	15,506	-	15,506
Notes payable-due within one year	25,536	-	25,536
Bonds payable-due within one year	225,000	-	225,000
Non-current liabilities			
Notes payable-non-current portion	31,539	-	31,539
Bonds payable-non-current portion	2,713,331	-	2,713,331
Net pension liability - Main	162,735	34,436	197,171
Net pension liability - Law Enforcement	34,369	-	34,369
TOTAL LIABILITIES	<u>3,233,289</u>	<u>70,646</u>	<u>3,303,935</u>
DEFERRED INFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - Main	12,264	2,595	14,859
Cost sharing defined benefit pension plan - Law Enforcement	13,767	-	13,767
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>26,031</u>	<u>2,595</u>	<u>28,626</u>
NET POSITION			
Net investment in capital assets	(66,328)	301,762	235,434
Restricted-debt service	3,160,450	-	3,160,450
Restricted-highway and streets	163,737	-	163,737
Unrestricted	358,251	498,815	857,066
TOTAL NET POSITION	<u>\$ 3,616,110</u>	<u>\$ 800,577</u>	<u>\$ 4,416,687</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 250,385	\$ 18,220	\$ -	\$ -	\$ (232,165)	\$ -	\$ (232,165)
Public safety	67,910	-	-	-	(67,910)	-	(67,910)
Public works	318,895	-	74,007	-	(244,888)	-	(244,888)
Culture and recreation	7,132	-	-	-	(7,132)	-	(7,132)
Interest	90,210	-	-	-	(90,210)	-	(90,210)
Other debt service charges	1,775	-	-	-	(1,775)	-	(1,775)
Total Governmental Activities	<u>736,307</u>	<u>18,220</u>	<u>74,007</u>	<u>-</u>	<u>(644,080)</u>	<u>-</u>	<u>(644,080)</u>
Business-Type Activities							
Sewer maintenance	60,309	69,908	-	-	-	9,599	9,599
Sanitation	129,310	176,219	-	-	-	46,909	46,909
Pest Control	8,908	15,068	-	-	-	6,160	6,160
Total Business-Type Activities	<u>198,527</u>	<u>261,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,668</u>	<u>62,668</u>
Total Primary Government	<u>\$ 934,834</u>	<u>\$ 279,415</u>	<u>\$ 74,007</u>	<u>\$ -</u>	<u>(644,080)</u>	<u>62,668</u>	<u>(581,412)</u>
General Receipts:							
Property taxes					206,725	-	206,725
Special assessments-interest					111,569	-	111,569
Intergovernmental (not restricted for specific program)					73,105	-	73,105
Interest					704	-	704
Other general revenues					25,993	-	25,993
Total General Revenues					<u>418,096</u>	<u>-</u>	<u>418,096</u>
Changes in Net Position					(225,984)	62,668	(163,316)
Net Position, Beginning of Year					<u>3,842,094</u>	<u>737,909</u>	<u>4,580,003</u>
Net Position, End of Year					<u>\$ 3,616,110</u>	<u>\$ 800,577</u>	<u>\$ 4,416,687</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2017

	<u>Debt Service Funds</u>						<u>Capital Projects</u>	<u>Total</u>
	<u>General</u>	<u>Highway</u>	<u>Street Paving Project 2012-1</u>	<u>Street Paving Project 2009-1</u>	<u>Street Paving Project 2013-1</u>	<u>Street Paving Project 2015-1</u>	<u>Street Paving Projects</u>	
Assets								
Cash and cash equivalents	\$ 450,194	\$ 48,903	\$ 227,053	\$ 139,701	\$ 351,670	\$ 6,246	\$ 118,826	\$ 1,342,593
Investments	37,662	-	-	-	-	-	-	37,662
Receivables:								
Property Taxes	2,678	-	-	-	-	-	-	2,678
Special assessments	-	-	748,514	398,513	861,074	443,185	-	2,451,286
Total Assets	<u>\$ 490,534</u>	<u>\$ 48,903</u>	<u>\$ 975,567</u>	<u>\$ 538,214</u>	<u>\$ 1,212,744</u>	<u>\$ 449,431</u>	<u>\$ 118,826</u>	<u>\$ 3,834,219</u>
Liabilities:								
Accounts payable	\$ 13,143	\$ 3,992	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,135
Accrued salaries and benefits	8,138	-	-	-	-	-	-	8,138
Total Liabilities	<u>21,281</u>	<u>3,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,273</u>
Deferred Inflows of Resources:								
Unavailable revenue-property taxes	2,678	-	-	-	-	-	-	2,678
Uncertified special assessments	-	-	748,514	398,513	861,074	443,185	-	2,451,286
Total Deferred Inflows of resources	<u>2,678</u>	<u>-</u>	<u>748,514</u>	<u>398,513</u>	<u>861,074</u>	<u>443,185</u>	<u>-</u>	<u>2,453,964</u>
Fund Balance								
Restricted								
Debt service	-	-	227,053	139,701	351,670	6,246	-	724,670
Highway	-	44,911	-	-	-	-	-	44,911
Streets	-	-	-	-	-	-	118,826	118,826
Total Restricted	<u>-</u>	<u>44,911</u>	<u>227,053</u>	<u>139,701</u>	<u>351,670</u>	<u>6,246</u>	<u>118,826</u>	<u>888,407</u>
Unassigned	466,575	-	-	-	-	-	-	466,575
Total Fund Balance	<u>466,575</u>	<u>44,911</u>	<u>227,053</u>	<u>139,701</u>	<u>351,670</u>	<u>6,246</u>	<u>118,826</u>	<u>1,354,982</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 490,534</u>	<u>\$ 48,903</u>	<u>\$ 975,567</u>	<u>\$ 538,214</u>	<u>\$ 1,212,744</u>	<u>\$ 449,431</u>	<u>\$ 118,826</u>	<u>\$ 3,834,219</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017

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

Total fund balance-governmental funds		\$ 1,354,982
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets		\$ 3,866,082
Accumulated Depreciation		<u>(937,004)</u>
Net		2,929,078
Net deferred outflows/inflows of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/inflows of resources in the governmental funds.		
		86,102
Property tax and special assessments receivable will not be collected soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
Unavailable property taxes		2,678
Uncertified special assessments		<u>2,451,286</u>
		2,453,964
Interest payable reported in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		
		(15,506)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:		
Notes payable		(57,075)
Bonds payable		(2,945,000)
Bond discount		6,669
Net pension liability - Main		(162,735)
Net pension liability - Law Enforcement		<u>(34,369)</u>
		<u>(3,192,510)</u>
Total net position-governmental activities		<u><u>\$ 3,616,110</u></u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Debt Service Funds						Capital Projects	Total
	General	Highway	Street Paving Project 2012-1	Street Paving Project 2009-1	Street Paving Project 2013-1	Street Paving Project 2015-1	Street Paving Projects	
Revenues:								
Taxes	\$ 206,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 206,125
Special assessments	-	-	98,927	47,517	92,548	41,956	-	280,948
Licenses, permits and fees	14,234	-	-	-	-	-	-	14,234
Intergovernmental revenues	73,105	74,007	-	-	-	-	-	147,112
Fines and forfeits	3,986	-	-	-	-	-	-	3,986
Interest	704	-	-	-	-	-	-	704
Other	25,993	-	-	-	-	-	-	25,993
Total revenues	<u>324,147</u>	<u>74,007</u>	<u>98,927</u>	<u>47,517</u>	<u>92,548</u>	<u>41,956</u>	-	<u>679,102</u>
Expenditures:								
Current:								
General government	213,127	-	-	-	-	-	-	213,127
Public safety	62,152	-	-	-	-	-	-	62,152
Public works	33,996	83,681	-	-	-	-	-	117,677
Culture and recreation	7,132	-	-	-	-	-	-	7,132
Debt service:								
Principal	4,908	19,973	95,000	25,000	70,000	35,000	-	249,881
Interest	573	1,599	24,930	17,076	33,477	13,338	-	90,993
Service charges	-	-	450	450	425	450	-	1,775
Total expenditures	<u>321,888</u>	<u>105,253</u>	<u>120,380</u>	<u>42,526</u>	<u>103,902</u>	<u>48,788</u>	-	<u>742,737</u>
Excess of Revenues Over (Under) Expenditures	<u>2,259</u>	<u>(31,246)</u>	<u>(21,453)</u>	<u>4,991</u>	<u>(11,354)</u>	<u>(6,832)</u>	-	<u>(63,635)</u>
Other Financing Sources (Uses):								
Operating transfers in	2,818	-	-	-	-	-	-	2,818
Operating transfers out	-	-	(2,818)	-	-	-	-	(2,818)
Total other financing sources (uses)	<u>2,818</u>	<u>-</u>	<u>(2,818)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	5,077	(31,246)	(24,271)	4,991	(11,354)	(6,832)	-	(63,635)
Fund Balance, Beginning of Year	461,498	76,157	251,324	134,710	363,024	13,078	118,826	1,418,617
Fund Balance, End of Year	<u>\$ 466,575</u>	<u>\$ 44,911</u>	<u>\$ 227,053</u>	<u>\$ 139,701</u>	<u>\$ 351,670</u>	<u>\$ 6,246</u>	<u>\$ 118,826</u>	<u>\$ 1,354,982</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

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

Net change in fund balance- total governmental funds	\$ (63,635)
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Governmental funds report capital outlays as expenditures.

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

Depreciation Expense	(215,073)
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Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Retirement of long-term debt	249,881
Amortization of bond discount	(247)

Changes in deferred outflows/inflows of resources related to net pension liability	74,900
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Changes in net pension liability	(104,061)
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Some revenues will not be collected for several months after the City's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:

Net change in unavailable property taxes	600
Net change in uncertified special assessments	(169,379)

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

	1,030
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Net change in net position of governmental activities	\$ (225,984)
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See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF NET POSITION – ENTERPRISE FUNDS
AS OF DECEMBER 31, 2017

	<u>Sewer Maintenance</u>	<u>Sanitation</u>	<u>Pest Control</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 236,350	\$ 291,151	\$ 438	\$ 527,939
Accounts receivable	7,795	18,932	1,114	27,841
Total Current Assets	<u>244,145</u>	<u>310,083</u>	<u>1,552</u>	<u>555,780</u>
Capital assets-not being depreciated				
Land	153,236	4,500	-	157,736
Capital assets				
Buildings and improvements	573,940	-	-	573,940
Vehicles and equipment	105,146	-	9,212	114,358
Less: accumulated depreciation	(542,046)	-	(2,226)	(544,272)
Net Capital Assets	<u>290,276</u>	<u>4,500</u>	<u>6,986</u>	<u>301,762</u>
TOTAL ASSETS	<u>534,421</u>	<u>314,583</u>	<u>8,538</u>	<u>857,542</u>
Deferred Outflows of Resources				
Cost sharing defined benefit pension plan - Main	<u>9,262</u>	<u>4,719</u>	<u>2,295</u>	<u>16,276</u>
Liabilities				
Current liabilities				
Accounts payable	26,566	9,069	-	35,635
Accrued salaries and benefits	364	211	-	575
Total current liabilities	<u>26,930</u>	<u>9,280</u>	<u>-</u>	<u>36,210</u>
Long-term liabilities				
Net pension liability - Main	<u>19,595</u>	<u>9,984</u>	<u>4,857</u>	<u>34,436</u>
TOTAL LIABILITIES	<u>46,525</u>	<u>19,264</u>	<u>4,857</u>	<u>70,646</u>
DEFERRED INFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan - Main	<u>1,477</u>	<u>752</u>	<u>366</u>	<u>2,595</u>
Net Position				
Net investment in capital assets	290,276	4,500	6,986	301,762
Unrestricted	<u>205,405</u>	<u>294,786</u>	<u>(1,376)</u>	<u>498,815</u>
TOTAL NET POSITION	<u>\$ 495,681</u>	<u>\$ 299,286</u>	<u>\$ 5,610</u>	<u>\$ 800,577</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Sewer Maintenance</u>	<u>Sanitation</u>	<u>Pest Control</u>	<u>Total</u>
Operating Revenues:				
Sewage collections	\$ 69,908	\$ -	\$ -	\$ 69,908
Garbage collections	-	176,219	-	176,219
Pest control collection	-	-	15,068	15,068
Total operating revenues	<u>69,908</u>	<u>176,219</u>	<u>15,068</u>	<u>261,195</u>
Operating Expenses:				
Salaries and benefits	12,229	6,231	3,031	21,491
Utilities	3,779	-	-	3,779
Repairs and maintenance	24,708	-	-	24,708
Refuse collections	-	123,079	-	123,079
Miscellaneous	-	-	4,035	4,035
Depreciation	19,593	-	1,842	21,435
Total operating expenses	<u>60,309</u>	<u>129,310</u>	<u>8,908</u>	<u>198,527</u>
Operating Income	9,599	46,909	6,160	62,668
Net Position, Beginning of Year	<u>486,082</u>	<u>252,377</u>	<u>(550)</u>	<u>737,909</u>
Net Position, End of Year	<u>\$ 495,681</u>	<u>\$ 299,286</u>	<u>\$ 5,610</u>	<u>\$ 800,577</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Sewer Maintenance</u>	<u>Sanitation</u>	<u>Pest Control</u>	<u>Total</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:				
Cash received from customers	\$ 69,908	\$ 176,219	\$ 15,068	\$ 261,195
Cash payments to suppliers	(28,542)	(122,130)	(4,035)	(154,707)
Cash payments to employees for services	(9,147)	(5,822)	(3,024)	(17,993)
Net cash provided by operating activities	<u>32,219</u>	<u>48,267</u>	<u>8,009</u>	<u>88,495</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES:				
Cash received from other funds	-	7,571	(7,571)	-
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of property and equipment	(37,470)	-	-	(37,470)
Net cash used by capital financing activities	<u>(37,470)</u>	<u>-</u>	<u>-</u>	<u>(37,470)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,251)	55,838	438	51,025
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>241,601</u>	<u>235,313</u>	<u>-</u>	<u>476,914</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 236,350</u>	<u>\$ 291,151</u>	<u>\$ 438</u>	<u>\$ 527,939</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 9,599	\$ 46,909	\$ 6,160	\$ 62,668
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	19,593	-	1,842	21,435
Changes in assets and liabilities:				
(Increase) Decrease in deferred outflows of resources	(6,408)	(2,885)	(1,340)	(10,633)
Increase (Decrease) in accounts payable	(55)	949	-	894
Increase (Decrease) in deferred inflows of resources	(182)	(314)	(189)	(685)
Increase (Decrease) in net pension liability	9,672	3,608	1,536	14,816
Net cash provided by operating activities	<u>\$ 32,219</u>	<u>\$ 48,267</u>	<u>\$ 8,009</u>	<u>\$ 88,495</u>

See Notes to the Basic Financial Statements

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

The City uses the criteria established by the Governmental Accounting Standards Board in determining financial accountability. The criteria include, but are not limited to, appointing a voting majority of an organization's governing board, and 1) the ability of the entity to impose its will on that organization or 2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the entity. The City has determined that no component units meet the above criteria and, therefore, none have been included as discretely presented component units in the City's financial statements.

Basis of Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

Governmental Funds

General Fund

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

Special Revenue Funds

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

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

Debt Service Funds

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

Capital Project Funds

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

Proprietary Funds

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

Fiduciary Funds

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

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

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

Budgets

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

The preliminary budget shall set forth specifically:

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

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

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

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10, of each year. The budget amounts shown in the financial statements are the final authorized amounts.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

Cash and Cash Equivalents

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

Investments

Investments consist of certificates of deposit.

Accounts Receivable

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

Capital Assets

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

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

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

Long-Term Debt

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

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Net Position

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

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

Fund Balance

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

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

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority which is the Council through a resolution.

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

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

Minimum Fund Balance Policy

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

Encumbrances

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

Estimates

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

Significant Group Concentrations of Credit Risk

As of December 31, 2017, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security.

Inter-fund Balances

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

Inter-fund Activity

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Revenues

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

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

Operating revenues and expenses in the proprietary funds consist of user fees, sales, charges for services and the related income and expenses associated with providing those sales and services. Non-operating revenues and expenses consist of contributions, grants, rents, interest and other miscellaneous items not associated with the services the fund is providing.

Revenues-Exchange and Non-Exchange Transactions

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

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

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

Property Taxes

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

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

Unearned Revenue

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, *unavailable property taxes* and *uncertified special assessments* are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has two items reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS pension plans. See Note 5 for more details.

Pensions

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

The City's investments consist of certificates of deposits.

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

Interest Rate Risk

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Custodial Risk

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

Credit Risk

State statutes authorize local governments to invest in:

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

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the governmental activities for the year ended December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not depreciated				
Land	\$ 18,947	\$ -	\$ -	\$ 18,947
Capital assets depreciated				
Buildings and improvements	479,044	-	-	479,044
Infrastructure	3,122,221	-	-	3,122,221
Vehicles and equipment	245,870	-	-	245,870
Total Capital Assets	<u>3,866,082</u>	<u>-</u>	<u>-</u>	<u>3,866,082</u>
Accumulated Depreciation				
Buildings and improvements	157,328	11,819	-	169,147
Infrastructure	438,403	186,616	-	625,019
Vehicles and equipment	126,200	16,638	-	142,838
Total Accumulated Depreciation	<u>721,931</u>	<u>215,073</u>	<u>-</u>	<u>937,004</u>
Net Capital Assets - Gov't Activities	<u>\$ 3,144,151</u>	<u>\$ (215,073)</u>	<u>\$ -</u>	<u>\$ 2,929,078</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Changes in capital assets for the business-type activities for the year ended December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer Maintenance				
Land	\$ 100,736	\$ 52,500	\$ -	\$ 153,236
Buildings and improvements	573,940	-	-	573,940
Vehicles and equipment	93,926	11,220	-	105,146
Total Sewer Maint. Capital Assets	<u>768,602</u>	<u>63,720</u>	<u>-</u>	<u>832,322</u>
Sewer Maint. Accum. Depreciation				
Buildings and improvements	444,717	15,425	-	460,142
Vehicles and equipment	77,736	4,168	-	81,904
Total Accumulated Depreciation	<u>522,453</u>	<u>19,593</u>	<u>-</u>	<u>542,046</u>
Net Capital Assets - Sewer Maint.	<u>\$ 246,149</u>	<u>\$ 44,127</u>	<u>\$ -</u>	<u>\$ 290,276</u>
Sanitation				
Land	\$ 4,500	\$ -	\$ -	\$ 4,500
Total Sanitation Capital Assets	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>4,500</u>
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Capital Assets - Sanitation	<u>\$ 4,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,500</u>
Pest Control				
Vehicles and equipment	\$ 9,212	\$ -	\$ -	\$ 9,212
Total Pest Control Capital Assets	<u>9,212</u>	<u>-</u>	<u>-</u>	<u>9,212</u>
Pest Control Accum. Depreciation				
Vehicles and equipment	384	1,842	-	2,226
Total Accumulated Depreciation	<u>384</u>	<u>1,842</u>	<u>-</u>	<u>2,226</u>
Net Capital Assets - Pest Control	<u>\$ 8,828</u>	<u>\$ (1,842)</u>	<u>\$ -</u>	<u>\$ 6,986</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

Governmental Activities		
General government	\$	8,097
Public safety		5,758
Public works		201,218
Total Depreciation Expense - Governmental Activities	\$	<u>215,073</u>
 Business-Type Activities		
Sewer Maintenance	\$	19,593
Pest Control		1,842
Total Depreciation Expense - Governmental Activities	\$	<u>21,435</u>

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in the long-term debt by individual issue for the year ended December 31, 2017:

Governmental Activities	Interest Rate	Beginning Balance	New Issues	Reductions	Other	Ending Balance	Due within One Year
First State Bank	2.55%	\$ 61,481	\$ -	\$ 19,973	\$ -	\$ 41,508	\$ 20,489
First State Bank	2.75%	20,475	-	4,908	-	15,567	5,047
\$1,200,000 Refunding Improvement Bonds, Series 2013	1.1% - 4%	1,070,000	-	70,000	-	1,000,000	70,000
\$1,500,000 Refunding Improvement Bonds, Series 2012	.75% - 3%	1,145,000	-	95,000	-	1,050,000	95,000
\$565,000 Refunding Improvement Bonds, Series 2009	2.50% - 4.65%	415,000	-	25,000	-	390,000	25,000
\$570,000 Refunding Improvement Bonds, Series 2015	1.4%-3.25%	540,000	-	35,000	-	505,000	35,000
Discount on Bond		(6,916)	-	(247)	-	(6,669)	-
Net Pension Liability - Main		93,043	-	-	69,692	162,735	-
Net Pension Liability - Law Enforcement		-	-	-	34,369	34,369	-
		<u>\$ 3,338,083</u>	<u>\$ -</u>	<u>\$ 249,634</u>	<u>\$ 104,061</u>	<u>\$ 3,192,510</u>	<u>\$ 250,536</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Business Type Activities	Interest Rate	Beginning Balance	New Issues	Reductions	Other	Ending Balance	Due within One Year
Net Pension Liability - Main		\$ 19,620	\$ -	\$ -	\$ 14,816	\$ 34,436	\$ -

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

	<u>\$1,500,000 Refunding Improvement</u>			<u>\$565,000 Refunding Improvement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 95,000	\$ 23,885	\$ 118,885	\$ 25,000	\$ 16,264	\$ 41,264
2019	95,000	22,531	117,531	25,000	15,358	40,358
2020	100,000	20,825	120,825	25,000	14,358	39,358
2021	100,000	19,075	119,075	30,000	13,258	43,258
2022	105,000	16,888	121,888	30,000	12,058	42,058
2023-2027	555,000	41,288	596,288	175,000	39,254	214,254
2028-2032	-	-	-	80,000	3,720	83,720
Total	<u>\$ 1,050,000</u>	<u>\$ 144,492</u>	<u>\$ 1,194,492</u>	<u>\$ 390,000</u>	<u>\$ 114,268</u>	<u>\$ 504,268</u>

	<u>\$1,200,000 Refunding Improvement</u>			<u>\$570,000 Refunding Improvement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 70,000	\$ 32,183	\$ 102,183	\$ 35,000	\$ 12,848	\$ 47,848
2019	70,000	30,695	100,695	35,000	12,253	47,253
2020	75,000	28,955	103,955	35,000	11,553	46,553
2021	75,000	27,005	102,005	35,000	10,853	45,853
2022	80,000	24,835	104,835	35,000	10,074	45,074
2023-2027	435,000	82,393	517,393	195,000	35,806	230,806
2028-2032	195,000	7,900	202,900	135,000	6,581	141,581
Total	<u>\$ 1,000,000</u>	<u>\$ 233,965</u>	<u>\$ 1,233,965</u>	<u>\$ 505,000</u>	<u>\$ 99,966</u>	<u>\$ 604,966</u>

	<u>First State Bank</u>			<u>First State Bank</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 20,489	\$ 1,073	\$ 21,562	\$ 5,047	\$ 434	\$ 5,481
2019	21,019	543	21,562	5,187	293	5,480
2020	-	-	-	5,333	149	5,482
Total	<u>\$ 41,508</u>	<u>\$ 1,616</u>	<u>\$ 43,124</u>	<u>\$ 15,567</u>	<u>\$ 876</u>	<u>\$ 16,443</u>

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

	Combined Debt Payments Governmental Activities		
	Principal	Interest	Total
2018	\$ 250,536	\$ 86,686	\$ 337,222
2019	251,206	81,672	332,878
2020	240,333	75,839	316,172
2021	240,000	70,190	310,190
2022	250,000	63,854	313,854
2023-2027	1,360,000	198,741	1,558,741
2028-2032	410,000	18,201	428,201
	\$ 3,002,075	\$ 595,182	\$ 3,597,257

NOTE 5 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

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

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

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

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

Pension Benefits

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

At December 31, 2017, the City reported a liability of \$197,171 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the City's proportion was 0.012267 percent which was an increase of 0.000707 from its proportion measured June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$28,055. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,172	\$ 961
Changes in actuarial assumptions	80,853	4,447
Difference between projected and actual investment earnings	2,652	-
Changes in proportion	4,158	9,451
Contributions paid to NDPERS subsequent to the measurement date	4,355	-
Total	<u>\$ 93,190</u>	<u>\$ 14,859</u>

\$4,355 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018.

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

<u>Year Ending June 30:</u>	<u>Pension Expense Amount</u>
2018	\$ 15,398
2019	19,037
2020	16,305
2021	14,609
2022	8,627

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	6.05%
International Equity	21.00%	6.70%
Private Equity	5.00%	10.20%
Domestic Fixed Income	17.00%	1.43%
International Fixed Inc.	5.00%	-0.45%
Global Real Assets	20.00%	5.16%
Cash Equivalents	1.00%	0.00%

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

Discount Rate

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.44 percent) or 1 percentage point higher (7.44 percent) than the current rate:

	1% Decrease in Discount Rate 5.44%	Discount Rate 6.44%	1% Increase in Discount Rate 7.44%
City's proportionate share of the NDPERS net pension liability:	\$ 267,666	\$ 197,171	\$ 138,522

Pension Plan Fiduciary Net Position

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

NDPERS Law Enforcement Retirement System (Law Enforcement System)

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

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

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

Pension Benefits

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (55) with three or more years of service. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service.

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

Death and Disability Benefits

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

Refunds of Member Account Balance

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

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

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 25 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, 2017, the Employer reported a liability of \$34,369 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll/contributions in the Law Enforcement System pension plan relative to the covered payroll/contributions of all participating Law Enforcement System employers. At June 30, 2017, the Employer's proportion was 0.156106 percent, which was an increase of 0.156106 from its proportion measured as of June 30, 2016.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

For the year ended December 31, 2017, the Employer recognized pension expense of \$6,184. At December 31, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 5,033	\$ 461
Changes in actuarial assumptions	18,377	894
Difference between projected and actual investment earnings	-	89
Changes in proportion	9,539	12,323
Contributions paid to NDPERS subsequent to the measurement date	2,270	-
Total	<u>\$ 35,219</u>	<u>\$ 13,767</u>

\$2,270 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction for the net pension liability in the year ending December 31, 2018.

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

<u>Year Ending June 30:</u>	<u>Pension Expense Amount</u>
2018	\$ 2,713
2019	3,314
2020	3,091
2021	6,120
2022	3,944

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
Age*	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

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

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00%	6.05%
International Equity	21.00%	6.70%
Private Equity	5.00%	10.20%
Domestic Fixed Income	17.00%	1.43%
International Fixed Inc.	5.00%	-0.45%
Global Real Assets	20.00%	5.16%
Cash Equivalents	1.00%	0.00%

Discount Rate

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.44 percent) or 1 percentage point higher (7.44 percent) than the current rate:

	1% Decrease in Discount Rate 5.44%	Discount Rate 6.44%	1% Increase in Discount Rate 7.44%
City's proportionate share of the NDPERS net pension liability:	\$ 51,719	\$ 34,369	\$ 20,253

Pension Plan Fiduciary Net Position

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2017, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City's property insurance is through the Tri-State Insurance Co. of Minnesota, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workers' Compensation Bureau. Other risks are covered by private insurance.

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

NOTE 7 - SCHEDULE OF TRANSFERS

Schedule of transfers	
Transfers in	
General Fund	<u>\$ 2,818</u>
Transfers out	
Debt Service Street paving project 2012-1	<u>\$ 2,818</u>

The transfer was to transfer revenue to the appropriate fund.

NOTE 8 - NEW PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

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

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

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2017

between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

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

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

CITY OF THOMPSON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Taxes	\$ 197,009	\$ 197,009	\$ 206,125	\$ 9,116
Licenses, permits and fees	16,915	16,915	14,234	(2,681)
Intergovernmental revenues	65,200	65,200	73,105	7,905
Fines and forfeits	4,500	4,500	3,986	(514)
Interest	-	-	704	704
Other	6,226	6,226	25,993	19,767
	<u>289,850</u>	<u>289,850</u>	<u>324,147</u>	<u>34,297</u>
Total revenues				
Expenditures:				
Current:				
General government	222,414	222,414	213,127	9,287
Public safety	69,000	69,000	62,152	6,848
Public works	36,150	36,150	33,996	2,154
Culture and recreation	4,800	4,800	7,132	(2,332)
Debt Service				
Principal	-	-	4,908	(4,908)
Interest	-	-	573	(573)
	<u>332,364</u>	<u>332,364</u>	<u>321,888</u>	<u>10,476</u>
Total expenditures				
Excess of Revenues Over (Under)				
Expenditures	<u>(42,514)</u>	<u>(42,514)</u>	<u>2,259</u>	<u>44,773</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	2,818	2,818
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,818</u>	<u>2,818</u>
Excess of Revenues and Other Sources Over				
Net Change in Fund Balance	(42,514)	(42,514)	5,077	47,591
Fund Balance, Beginning of Year	461,498	461,498	461,498	-
Fund Balance, End of Year	<u>\$ 418,984</u>	<u>\$ 418,984</u>	<u>\$ 466,575</u>	<u>\$ 47,591</u>

See the Notes to the Budgetary Comparison Schedules

CITY OF THOMPSON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL –
HIGHWAY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Intergovernmental revenues	\$ 62,000	\$ 62,000	\$ 74,007	\$ 12,007
Other	20	20	-	(20)
Total revenues	<u>62,020</u>	<u>62,020</u>	<u>74,007</u>	<u>11,987</u>
Expenditures:				
Current:				
Public works	85,825	85,825	83,681	2,144
Debt service:				
Principal	20,000	20,000	19,973	27
Interest	1,600	1,600	1,599	1
Total expenditures	<u>107,425</u>	<u>107,425</u>	<u>105,253</u>	<u>2,172</u>
Excess of Revenues Over (Under) Net Change in Fund Balance	<u>(45,405)</u>	<u>(45,405)</u>	<u>(31,246)</u>	<u>14,159</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(45,405)	(45,405)	(31,246)	14,159
Fund Balance, Beginning of Year	<u>76,157</u>	<u>76,157</u>	<u>76,157</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 30,752</u>	<u>\$ 30,752</u>	<u>\$ 44,911</u>	<u>\$ 14,159</u>

See the Notes to the Budgetary Comparison Schedules

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
AS OF DECEMBER 31, 2017

NOTE 1 - BUDGETS

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

The preliminary budget shall set forth specifically:

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

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

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

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10, of each year. The budget amounts shown in the financial statements are the final authorized amounts.

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

CITY OF THOMPSON, NORTH DAKOTA
NOTES TO THE BUDGETARY COMPARISON SCHEDULES - CONTINUED
AS OF DECEMBER 31, 2017

NOTE 2 - EXPENDITURES IN EXCESS OF BUDGET

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
Culture and recreation	\$ 4,800	\$ 7,132	\$ (2,332)
Debt Service	-	5,481	(5,481)

Funds sufficient to provide for excess expenditures were made available from other functions within the fund, and the excess has no impact on the financial results of the City.

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

Main System

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

Law Enforcement

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

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

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

See Note to the Required Supplementary Information

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
AS OF DECEMBER 31, 2017

Main System

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2017	\$ 8,761	\$ (8,761)	\$ -	\$ 123,049	7.12%
2016	8,474	(8,474)	-	119,118	7.11%
2015	8,587	(8,587)	-	113,046	7.60%

Law Enforcement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2017	\$ 4,707	\$ 4,707	\$ 9,414	\$ 45,654	10.31%
2016	-	-	-	-	0.00%
2015	-	-	-	-	0.00%

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

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

See Note to the Required Supplementary Information

CITY OF THOMPSON, NORTH DAKOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2017

NOTE 1 - CHANGES OF ASSUMPTIONS

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the City Council
City of Thompson
Thompson, North Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of City of Thompson as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Thompson's basic financial statements and have issued our report thereon dated May 25, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses identified as item 2017-002 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



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

June 13, 2018

CITY OF THOMPSON, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
AS OF DECEMBER 31, 2017

Control Deficiency 2017-001 – Material Weakness

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Response:

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

Control Deficiency 2017-002 – Significant Deficiency

Criteria

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

Condition:

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

Cause:

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

Effect:

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in a city of your size.

Recommendation:

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

Response:

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