

CITY OF WALHALLA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

**OVERMOE & NELSON, LTD
Certified Public Accountants
Ste 30 – 200 1st Ave N
Grand Forks, North Dakota 58203
(701) 746-0437**

TABLE OF CONTENTS

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT	1-2
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	3
STATEMENT OF ACTIVITIES	4-5
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS	
BALANCE SHEET	6-7
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	9-10
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	11
PROPRIETARY FUNDS	
STATEMENT OF NET POSITION	12-13
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION	14
STATEMENT OF CASH FLOWS	15-16
FIDUCIARY FUNDS	
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS	17
NOTES TO THE FINANCIAL STATEMENTS	18-44
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND AND ROADS AND STREETS FUND	45
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT FUND AND AIRPORT FUND	46
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SALES TAX FUND AND DEBT SERVICE FUND	47
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY	48
SCHEDULE OF EMPLOYER CONTRIBUTIONS	49
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	50-51

REPORT SECTION

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 <i>GOVERNMENT AUDITING STANDARDS</i>	52-53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	54-58

Independent Auditor's Report

To the City Council
City of Walhalla
Walhalla, North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walhalla as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walhalla as of December 31, 2015, and the respective changes in financial position 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 schedules of revenues, expenditures, and changes in fund balances - budget and actual - general fund, roads and streets fund, economic

development fund, airport fund, sales tax fund and debt service fund on pages 45 through 47, schedule of employer's share of net pension liability on page 48, schedule of employer contributions on page 49, and their related notes on pages 50-51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2017, on our consideration of the **City of Walhalla's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **City of Walhalla's** internal control over financial reporting and compliance.



OVERMOE & NELSON, LTD
Certified Public Accountants
Grand Forks, North Dakota

October 11, 2017

**CITY OF WALHALLA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015**

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 319,270	\$ 75,081	\$ 394,351
Equity in Pooled Cash and Cash Equivalents	583,981	391,432	975,413
Investments	-	187,371	187,371
Property Tax Receivable, Current	54,318	-	54,318
Accounts Receivable	-	61,409	61,409
Notes Receivable, Current	5,000	53,468	58,468
Due from Federal Sources	17,555	-	17,555
Due from State Sources	25,868	-	25,868
Due from Other Funds	6,445	63,506	69,951
Due from Other Sources	21,078	-	21,078
Prepaid Benefits and Insurance	13,264	4,801	18,065
Interest Receivable	-	468	468
Property Tax Receivable, Non-Current	-	-	-
Notes Receivable, Non-Current	-	265,347	265,347
Due from Others, Non-Current	-	111,894	111,894
Capital Assets, Net	3,255,674	1,079,358	4,335,032
Total Assets	\$ 4,302,453	\$ 2,294,135	\$ 6,596,588
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	\$ 27,588	\$ -	27,588
Bond Issuance Costs	23,602	-	23,602
Deferred Loss on Refunding	29,582	-	29,582
Total Deferred Outflows of Resources	\$ 80,772	\$ -	\$ 80,772
LIABILITIES			
Deficit in Pooled Cash and Equivalents	\$ 199,472	\$ -	\$ 199,472
Accounts Payable	192,256	44,551	236,807
Interest Payable	5,772	913	6,685
Due to Others	286,539	97,962	384,501
Due to Other Funds	-	69,952	69,952
Current Portion of Long-Term Liabilities	253,289	89,722	343,011
Long-Term Liabilities	891,510	384,348	1,275,858
Net Pension Liability	119,895	-	119,895
Total Liabilities	\$ 1,948,733	\$ 687,448	2,636,181
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	\$ 110,663	\$ -	\$ 110,663
Deferred Grant Revenue	15,000	-	15,000
Deferred Property Tax Revenue	-	-	-
Total Deferred Inflows of Resources	\$ 125,663	\$ -	\$ 125,663
NET POSITION			
Net Investment in Capital Assets Restricted for Capital Projects	\$ 2,110,875	\$ 851,382	\$ 2,962,257
Unrestricted	197,954	755,305	953,259
Total Net Position	\$ 2,308,829	\$ 1,606,687	\$ 3,915,516

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

**CITY OF WALHALLA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Expense</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 192,531	\$ 23,733	\$ 94,733	\$ -	\$ (74,065)	\$ -	\$ (74,065)
Public Safety	68,708	-	-	-	(68,708)	-	(68,708)
Highways and Public Improvement	262,195	-	74,468	-	(187,727)	-	(187,727)
Health and Welfare	17,583	-	-	-	(17,583)	-	(17,583)
Culture and Recreation	2,211	-	1,130	-	(1,081)	-	(1,081)
Economic Development	4,228	-	-	-	(4,228)	-	(4,228)
Library	25,285	-	785	-	(24,500)	-	(24,500)
Airport	123,257	11,630	-	146,566	34,939	-	34,939
Interest and Fiscal Charges on Long-Term Liabilities	38,018	-	-	-	(38,018)	-	(38,018)
Total Governmental Activities	\$ 734,016	\$ 35,363	\$ 171,116	\$ 146,566	\$ (380,971)	\$ -	\$ (380,971)
Business-Type Activities							
Water Utility	\$ 362,299	\$ 344,065	\$ -	\$ -	\$ -	\$ (18,234)	\$ (18,234)
Garbage and Sewer	119,442	160,657	-	-	-	41,215	41,215
Civic Center	-	-	-	-	-	-	-
Clinic	49,463	6,000	-	-	-	(43,463)	(43,463)
Swimming Pool	47,699	18,343	-	-	-	(29,356)	(29,356)
Community Development	34,766	2,417	-	-	-	(32,349)	(32,349)
Total Business-Type Activities	\$ 613,669	\$ 531,482	\$ -	\$ -	\$ -	\$ (82,187)	\$ (82,187)
Total Primary Government	\$ 1,347,685	\$ 566,845	\$ 171,116	\$ 146,566	\$ (380,971)	\$ (82,187)	\$ (463,158)

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

**CITY OF WALHALLA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Net (Expense) Revenue and Change in Net Position		
	Governmental Activities	Business-Type Activities	Total
General Revenues			
Property Taxes	\$ 401,279	\$ -	\$ 401,279
Sales and Lodging Tax	180,288	-	180,288
Interest and Investment Earnings	2,818	12,996	15,814
Other Revenues	56,125	21,874	77,999
Total General Revenues	\$ 640,510	\$ 34,870	\$ 675,380
Gains and Transfers			
Gain on Sale of Capital Assets	\$ -	\$ -	\$ -
Transfers	19,118	(19,118)	-
Total General Revenues, Gains and Transfers	\$ 659,628	\$ 15,752	\$ 675,380
Change in Net Position	\$ 278,657	\$ (66,435)	\$ 212,222
Beginning Net Position	2,030,172	1,673,122	3,703,294
Ending Net Position	\$ 2,308,829	\$ 1,606,687	\$ 3,915,516

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

**CITY OF WALHALLA
BALANCE SHEET
AS OF DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Roads and Streets Fund</u>	<u>Economic Development Fund</u>	<u>Airport Fund</u>	<u>Sales Tax Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS								
Cash and Cash Equivalents	\$ 4,897	\$ 2,918	\$ -	\$ 311,455	\$ -	\$ -	\$ -	\$ 319,270
Equity in Pooled Cash and Cash Equivalents	-	177,210	-	-	335,342	-	71,429	583,981
Property Tax Receivable	4,250	45,874	94	508	-	-	3,592	54,318
Note Receivable	5,000	-	-	-	-	-	-	5,000
Due from Federal Sources	-	-	-	-	-	-	-	-
Due from State Sources	-	-	-	8,869	14,401	-	160	23,430
Due from Other Funds	-	-	-	-	-	-	6,445	6,445
Due from Other Sources	20,959	-	119	-	-	-	-	21,078
Prepaid Benefits and Insurance	3,094	1,013	1,793	-	-	-	7,364	13,264
Investments	-	-	-	-	-	-	-	-
Total Assets	\$ 38,200	\$ 227,015	\$ 2,006	\$ 320,832	\$ 349,743	\$ -	\$ 88,990	\$ 1,026,786
DEFERRED OUTFLOWS OF RESOURCES								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Assets and Deferred Outflows of Resources	\$ 38,200	\$ 227,015	\$ 2,006	\$ 320,832	\$ 349,743	\$ -	\$ 88,990	\$ 1,026,786
LIABILITIES								
Deficit in Pooled Cash and Cash Equivalents	\$ 195,851	\$ -	\$ 3,621	\$ -	\$ -	\$ -	\$ -	\$ 199,472
Accounts Payable	9,586	3,433	75	175,984	-	-	3,178	192,256
Due to Others	16,539	-	-	-	-	-	-	16,539
Due to Other Funds	-	-	-	-	-	-	-	-
Due to ND Department of Commerce	-	-	270,000	-	-	-	-	270,000
Total Liabilities	\$ 221,976	\$ 3,433	\$ 273,696	\$ 175,984	\$ -	\$ -	\$ 3,178	\$ 678,267

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

**CITY OF WALHALLA
BALANCE SHEET
AS OF DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Roads and Streets Fund</u>	<u>Economic Development Fund</u>	<u>Airport Fund</u>	<u>Sales Tax Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
DEFERRED INFLOWS OF RESOURCES								
Deferred Grant Revenue	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ 15,000
Deferred Property Tax Revenue	3,991	43,114	88	503	-	-	3,372	51,068
Total Deferred Inflows of Resources	\$ 3,991	\$ 43,114	\$ 15,088	\$ 503	\$ -	\$ -	\$ 3,372	\$ 66,068
FUND BALANCES								
Nonspendable	\$ 3,094	\$ 1,013	\$ 1,793	\$ -	\$ -	\$ -	\$ 7,364	\$ 13,264
Restricted	-	179,455	-	-	-	-	-	179,455
Committed	-	-	-	-	-	-	-	-
Assigned	-	-	-	144,345	349,743	-	75,076	569,164
Unassigned	(190,861)	-	(288,571)	-	-	-	-	(479,432)
Total Fund Balances	\$ (187,767)	\$ 180,468	\$ (286,778)	\$ 144,345	\$ 349,743	\$ -	\$ 82,440	\$ 282,451
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 38,200	\$ 227,015	\$ 2,006	\$ 320,832	\$ 349,743	\$ -	\$ 88,990	\$ 1,026,786

**CITY OF WALHALLA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

Fund Balances - Governmental Funds	\$	282,451
 Amounts reported for governmental activities in the statement of net position are different because:		
 Bond issuance costs paid in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Bond Issuance Costs	34,042	
Less accumulated amortization	<u>(10,440)</u>	23,602
 Loss on refunding does not affect the governmental funds, but the loss increases deferred outflows of resources in the statement of net position and is amortized over the remaining life of the refunded debt		
Deferred loss on refunding	136,530	
Less accumulated amortization	<u>(106,948)</u>	29,582
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital asset	\$ 6,402,198	
Less accumulated depreciation	<u>(3,146,524)</u>	3,255,674
 Long-term liabilities, including notes payable are not due and payable in the current period and therefore are not included in governmental funds		
		(1,144,799)
 Property taxes not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds		
		51,068
 Federal grants not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds		
		17,555
 State grants not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds		
		2,438
 Interest payable on notes payable are not considered due at year end and therefore are not included in governmental funds		
		(5,772)
 Net pension liability is not due and payable in the current period and therefore is not included in the governmental funds		
		(119,895)
 Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore are not included in governmental funds		
Deferred inflows of resources related to pensions		(110,663)
Deferred outflows of resources related to pensions		<u>27,588</u>
Net Position of Governmental Activities	\$	<u>2,308,829</u>

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

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>General Fund</u>	<u>Roads and Streets Fund</u>	<u>Economic Development Fund</u>	<u>Airport Fund</u>	<u>Sales Tax Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES								
Local Sources	\$ 68,530	\$ 249,551	\$ 1,521	\$ 24,010	\$ 177,870	\$ -	\$ 62,152	\$ 583,634
State Sources	94,733	74,468	-	13,050	-	-	1,915	184,166
Federal Sources	-	-	-	129,441	-	-	-	129,441
Fees and Other Non-Tax Revenues	23,733	-	-	11,630	-	-	-	35,363
Other	14,044	27,227	-	4,523	-	-	13,149	58,943
Total Revenues	\$ 201,040	\$ 351,246	\$ 1,521	\$ 182,654	\$ 177,870	\$ -	\$ 77,216	\$ 991,547
EXPENDITURES								
Current								
General Government	\$ 153,372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,069	\$ 173,441
Public Safety	62,454	-	-	-	-	-	-	62,454
Highways and Public Improvement	-	93,543	-	-	-	-	-	93,543
Health and Welfare	-	-	-	-	-	-	39,645	39,645
Culture and Recreation	-	-	-	-	-	-	2,211	2,211
Economic Development	-	-	4,228	-	-	-	-	4,228
Library	-	-	-	-	-	-	25,285	25,285
Airport	-	-	-	26,428	-	-	-	26,428
Debt Service								
Principal Retirement	-	-	-	-	-	282,521	-	282,521
Interest and Fiscal Charges	-	-	-	-	-	23,567	-	23,567
Bond Issuance Costs	-	-	-	-	-	-	-	-
Capital Outlay								
Buildings and Equipment	-	-	-	149,760	-	-	-	149,760
Total Expenditures	\$ 215,826	\$ 93,543	\$ 4,228	\$ 176,188	\$ -	\$ 306,088	\$ 87,210	\$ 883,083
Excess (Deficiency) of Revenues								
Over Expenditures	\$ (14,786)	\$ 257,703	\$ (2,707)	\$ 6,466	\$ 177,870	\$ (306,088)	\$ (9,994)	\$ 108,464

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

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>General Fund</u>	<u>Roads and Streets Fund</u>	<u>Economic Development Fund</u>	<u>Airport Fund</u>	<u>Sales Tax Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES)								
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 13,492	\$ 306,088	\$ -	\$ 319,580
Transfers to Other Funds	-	(272,484)	-	-	(27,978)	-	-	(300,462)
Proceeds from Refunding Bonds	-	-	-	-	-	-	-	-
Prior Issue Debt Service Funds	-	-	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-	-	-
Payment to Refund Bond Escrow Agent	-	-	-	-	-	-	-	-
Proceeds from Notes Payable	-	-	-	-	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ (272,484)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,486)</u>	<u>\$ 306,088</u>	<u>\$ -</u>	<u>\$ 19,118</u>
Net Change in Fund Balance	<u>\$ (14,786)</u>	<u>\$ (14,781)</u>	<u>\$ (2,707)</u>	<u>\$ 6,466</u>	<u>\$ 163,384</u>	<u>\$ -</u>	<u>\$ (9,994)</u>	<u>\$ 127,582</u>
Beginning Fund Balance	<u>(172,981)</u>	<u>195,249</u>	<u>(284,071)</u>	<u>137,879</u>	<u>186,359</u>	<u>-</u>	<u>92,434</u>	<u>154,869</u>
Ending Fund Balance	<u><u>\$ (187,767)</u></u>	<u><u>\$ 180,468</u></u>	<u><u>\$ (286,778)</u></u>	<u><u>\$ 144,345</u></u>	<u><u>\$ 349,743</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 82,440</u></u>	<u><u>\$ 282,451</u></u>

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

**CITY OF WALHALLA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Governmental Funds	\$	127,582
 Amounts reported for governmental activities in the statement of activities are different because:		
 Governmental funds report bond issuance costs as expenditures. However, in the statement of activities, the issuance costs are amortized over the term of the bond		
Bond Issuance Costs	-	
Less current year amortization	(5,447)	(5,447)
 Loss on refunding does not effect the governmental funds, but the loss increases deferred outflows of resources in the statement of net position and is amortized over the remaining life of the refunded debt		
Amortization of deferred loss on refunding		(6,826)
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	\$ 149,760	
Less current year depreciation	(290,825)	(141,065)
 Proceeds from refunding bonds are a financing source in the governmental funds, the discount on those bonds is amortized over the term of the bond in the statement of net position		
Proceeds from refunding bonds	\$ -	
Bond discount	-	
Amortization of bond discount	(2,109)	(2,109)
 Payment on notes payable is an expenditure in the governmental funds, but decreases long-term liabilities in the statement of net position		
Loan payment	\$ 282,521	
Accrued interest	(69)	282,452
 Property taxes not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds, but all unpaid property taxes are in the statement of activities		
		(2,067)
 Federal grants not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds, but all unpaid federal grants are in the statement of activities		
		3,985
 State grants not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds, but all unpaid state grants are in the statement of activities		
		90
 Governmental funds report City pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is included in pension expense		
City pension contributions		8,299
Cost of benefits earned net of employee contributions		13,763
 Change in Net Position of Governmental Activities	 \$	 278,657

**CITY OF WALHALLA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water System Fund	Garbage and Sewer Fund	Civic Center Fund	Clinic Fund	Swimming Pool Fund	Development Fund	Industrial Park Fund	Total Business-Type Enterprise Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES								
Current Assets								
Cash and Cash Equivalents	\$ 75,081	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,081
Equity in Pooled Cash and Equivalents	103,334	206,835	19,820	-	-	61,443	-	391,432
Investments	187,371	-	-	-	-	-	-	187,371
Accounts Receivable	42,237	19,172	-	-	-	-	-	61,409
Due from Federal Sources	-	-	-	-	-	-	-	-
Prepaid Benefits and Insurance	2,302	2,499	-	-	-	-	-	4,801
Interest Receivable	-	-	-	-	-	468	-	468
Notes Receivable, Current Portion	-	-	-	-	-	53,468	-	53,468
Due from Other Funds	31,753	31,753	-	-	-	-	-	63,506
Due from Others, Current Portion	-	-	-	-	-	-	-	-
Total Current Assets	\$ 442,078	\$ 260,259	\$ 19,820	\$ -	\$ -	\$ 115,379	\$ -	\$ 837,536
Non-Current Assets								
Notes Receivable, Net of Current Portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,347	\$ -	\$ 265,347
Due from Others, Net of Current Portion	-	-	-	-	-	111,894	-	111,894
Total Non-Current Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 377,241	\$ -	\$ 377,241
Capital Assets								
Sites	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ 818,920	\$ 821,420
Buildings and Additions	1,986,462	-	-	215,398	-	-	-	2,201,860
Equipment	46,680	402,435	-	106,843	-	47,381	-	603,339
Vehicles	9,520	-	-	-	-	23,500	-	33,020
Less Accumulated Depreciation	(2,042,658)	(387,674)	-	(96,870)	-	(53,079)	-	(2,580,281)
Total Capital Assets	\$ 4	\$ 14,761	\$ -	\$ 225,371	\$ -	\$ 20,302	\$ 818,920	\$ 1,079,358
Deferred Outflows of Resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Assets and Deferred Outflows of Resources	\$ 442,082	\$ 275,020	\$ 19,820	\$ 225,371	\$ -	\$ 512,922	\$ 818,920	\$ 2,294,135

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

**CITY OF WALHALLA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water System Fund	Garbage and Sewer Fund	Civic Center Fund	Clinic Fund	Swimming Pool Fund	Development Fund	Industrial Park Fund	Total Business-Type Enterprise Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION								
Current Liabilities								
Due to Other Funds	\$ 6,445	\$ -	\$ -	\$ 34,215	\$ 29,292	\$ -	\$ -	\$ 69,952
Accounts Payable	38,979	4,911	-	308	55	298	-	44,551
Interest Payable	-	50	-	-	-	863	-	913
Notes Payable, Current Portion	-	36,511	-	23,933	-	29,278	-	89,722
Due to Others	-	-	-	-	-	97,962	-	97,962
Total Current Liabilities	\$ 45,424	\$ 41,472	\$ -	\$ 58,456	\$ 29,347	\$ 128,401	\$ -	\$ 303,100
Long-Term Liabilities								
Notes Payable, Net of Current Portion	\$ -	\$ -	\$ -	\$ 167,532	\$ -	\$ 216,816	\$ -	\$ 384,348
Deferred Inflows of Resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Position								
Net Investment in Capital Assets	\$ 4	\$ (21,750)	\$ -	\$ 33,906	\$ -	\$ 20,302	\$ 818,920	\$ 851,382
Unrestricted	396,654	255,298	19,820	(34,523)	(29,347)	147,403	-	755,305
Total Net Position	\$ 396,658	\$ 233,548	\$ 19,820	\$ (617)	\$ (29,347)	\$ 167,705	\$ 818,920	\$ 1,606,687
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 442,082	\$ 275,020	\$ 19,820	\$ 225,371	\$ -	\$ 512,922	\$ 818,920	\$ 2,294,135

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

CITY OF WALHALLA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Water System Fund	Garbage and Sewer Fund	Civic Center Fund	Clinic Fund	Swimming Pool Fund	Development Fund	Industrial Park Fund	Total Business-Type Enterprise Funds
OPERATING REVENUES								
Charges for Sales and Services	\$ 344,065	\$ 160,657	\$ -	\$ 6,000	\$ 18,343	\$ 2,417	\$ -	\$ 531,482
Other	2,617	1,327	-	14,960	30	2,940	-	21,874
Total Operating Revenues	\$ 346,682	\$ 161,984	\$ -	\$ 20,960	\$ 18,373	\$ 5,357	\$ -	\$ 553,356
OPERATING EXPENSES								
Water Utility Services	\$ 362,299	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,299
Garbage and Sewer Services	-	87,706	-	-	-	-	-	87,706
Civic Center	-	-	-	-	-	-	-	-
Clinic	-	-	-	25,584	-	-	-	25,584
Community Development	-	-	-	-	-	14,558	-	14,558
Swimming Pool	-	-	-	-	47,699	-	-	47,699
Depreciation	-	29,460	-	23,879	-	9,002	-	62,341
Total Operating Expenses	\$ 362,299	\$ 117,166	\$ -	\$ 49,463	\$ 47,699	\$ 23,560	\$ -	\$ 600,187
Operating Income (Loss)	\$ (15,617)	\$ 44,818	\$ -	\$ (28,503)	\$ (29,326)	\$ (18,203)	\$ -	\$ (46,831)
NON-OPERATING REVENUES (EXPENSES)								
Interest and Fiscal Charges	\$ -	\$ (2,276)	\$ -	\$ -	\$ -	\$ (11,206)	\$ -	\$ (13,482)
Investment Earnings	-	-	-	-	-	12,996	-	12,996
Operating Grants	-	-	-	-	-	-	-	-
Total Non-Operating Revenues (Expenses)	\$ -	\$ (2,276)	\$ -	\$ -	\$ -	\$ 1,790	\$ -	\$ (486)
Income (Loss) Before Transfers	\$ (15,617)	\$ 42,542	\$ -	\$ (28,503)	\$ (29,326)	\$ (16,413)	\$ -	\$ (47,317)
Transfers In	-	-	-	7,978	-	247,484	-	255,462
Transfers Out	-	-	-	(13,492)	-	(261,088)	-	(274,580)
CHANGE IN NET POSITION	\$ (15,617)	\$ 42,542	\$ -	\$ (34,017)	\$ (29,326)	\$ (30,017)	\$ -	\$ (66,435)
BEGINNING NET POSITION	412,275	191,006	19,820	33,400	(21)	197,722	818,920	1,673,122
ENDING NET POSITION	\$ 396,658	\$ 233,548	\$ 19,820	\$ (617)	\$ (29,347)	\$ 167,705	\$ 818,920	\$ 1,606,687

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

**CITY OF WALHALLA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water System Fund	Garbage And Sewer Fund	Civic Center Fund	Clinic Fund	Swimming Pool Fund	Development Fund	Industrial Park Fund	Total Business-Type Enterprise Funds
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS								
Cash Flows from Operating Activities								
Cash Received from Customers	\$ 347,806	\$ 159,751	\$ -	\$ 20,960	\$ 18,373	\$ 5,357	\$ -	\$ 552,247
Cash Payments to Employees for Services	(93,818)	(43,141)	-	-	(24,789)	-	-	(161,748)
Cash Payments for Goods and Services	(257,241)	(46,488)	-	(25,728)	(22,876)	(14,379)	-	(366,712)
Cash Payments for Claims	-	-	-	-	-	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ (3,253)	\$ 70,122	\$ -	\$ (4,768)	\$ (29,292)	\$ (9,022)	\$ -	\$ 23,787
Cash Flows from Noncapital Financing Activities								
Decrease (Increase) in Due from Others	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Decrease (Increase) in Due from Other Funds	64,628	58,182	-	-	-	-	-	122,810
Increase (Decrease) in Due to Other Funds	-	-	-	34,215	29,292	-	-	63,507
Increase (Decrease) in Due to Others	-	-	-	-	-	(2,417)	-	(2,417)
Operating Grants Received	-	-	-	-	-	-	-	-
Transfers In	-	-	-	7,978	-	247,484	-	255,462
Transfers Out	-	-	-	(13,492)	-	(261,088)	-	(274,580)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 64,628	\$ 58,182	\$ -	\$ 28,701	\$ 29,292	\$ (16,021)	\$ -	\$ 164,782
Cash Flows from Capital and Related Financing Activities								
Payments for Capital Acquisitions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payments Received for Capital Acquisition	-	-	-	-	-	-	-	-
Decrease (Increase) in Notes Receivable	-	-	-	-	-	10,940	-	10,940
Interest Received on Notes Receivable	-	-	-	-	-	12,996	-	12,996
Proceeds Received on Notes Payable	-	72,000	-	-	-	12,000	-	84,000
Principal Paid on Notes Payable	-	(35,489)	-	(23,933)	-	(26,579)	-	(86,001)
Interest Paid on Notes Payable	-	(2,226)	-	-	-	(11,091)	-	(13,317)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ -	\$ 34,285	\$ -	\$ (23,933)	\$ -	\$ (1,734)	\$ -	\$ 8,618

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

**CITY OF WALHALLA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water System Fund	Garbage And Sewer Fund	Civic Center Fund	Clinic Fund	Swimming Pool Fund	Development Fund	Industrial Park Fund	Total Business-Type Enterprise Funds
Cash Flows from Investing Activities								
Interest and Fiscal Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Purchase of Investments	-	-	-	-	-	-	-	-
Net Cash Provided (Used) by Investing Activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Increase (Decrease) in Cash and Cash Equivalents	61,375	162,589	-	-	-	(26,777)	-	197,187
Beginning Cash and Cash Equivalents	117,040	44,246	19,820	-	-	88,220	-	269,326
Ending Cash and Cash Equivalents	\$ 178,415	\$ 206,835	\$ 19,820	\$ -	\$ -	\$ 61,443	\$ -	\$ 466,513
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities								
Operating Income (Loss)	\$ (15,617)	\$ 44,818	\$ -	\$ (28,503)	\$ (29,326)	\$ (18,203)	\$ -	\$ (46,831)
Adjustments								
Depreciation	-	29,460	-	23,879	-	9,002	-	62,341
(Increase) Decrease in Assets								
Accounts Receivable	1,124	(2,233)	-	-	-	-	-	(1,109)
Prepaid Benefits	140	(738)	-	-	-	-	-	(598)
Increase (Decrease) in Liabilities								
Accounts Payable	11,100	(1,185)	-	(144)	34	179	-	9,984
Net Cash Provided (Used) by Operating Activities	\$ (3,253)	\$ 70,122	\$ -	\$ (4,768)	\$ (29,292)	\$ (9,022)	\$ -	\$ 23,787
Non-Cash Investing, Capital and Financing Activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

**CITY OF WALHALLA
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
AS OF DECEMBER 31, 2015**

	<u>Agency Fund</u>
ASSETS	
Equity in Pooled Cash and Equivalents	\$ -
Cash and Short-Term Investments	<u>19,543</u>
Total Assets	<u><u>\$ 19,543</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 19,543</u>
Total Liabilities	<u><u>\$ 19,543</u></u>

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Presentation - Government-Wide and Fund Financial Statements

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

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

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

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

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - Government-Wide and Fund Financial Statements - continued

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

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

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

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

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

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

Governmental Funds

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

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

**CITY OF WALTHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - Government-Wide and Fund Financial Statements - continued

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

Economic Development Fund – The Economic Development Fund is used to account for activities relating to the promotion of the City for future economic growth.

Airport Fund – The Airport Fund is used to account for the activities relating to the operation and maintenance of the municipal airport.

Sales Tax Fund – The Sales Tax Fund is used to account for the receipt of the City's sales tax returned by the State of North Dakota and its expenditures benefiting the City.

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

Proprietary Funds

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

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

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

Civic Center Fund – The Civic Center Fund accounts for revenues and expenses associated with providing a facility for public use and entertainment.

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

Swimming Pool Fund – The Swimming Pool Fund accounts for revenues and expenses associated with providing a municipal swimming pool for the City's residents.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - Government-Wide and Fund Financial Statements - continued

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

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

Measurement Focus

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

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

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

Basis of Accounting

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

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Accounting - continued

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

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

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

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

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

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

Encumbrance Accounting

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

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

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

Investments

Investments consist of escrow payments made to the North Valley Water Users (NVWU) as part of an agreement to provide water to the City. \$187,371 has been placed into an escrow account for the City to be maintained as part of NVWU's debt reserve requirement per its loan agreements. These funds will be released back to the City when NVWU's loan is repaid.

The investment accounts are recorded at net realizable value based on the lower of cost or market.

Capital Assets

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

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

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

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

CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets - continued

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

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

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

Deferred Outflows / 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items, which arise only under the accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, pension related deferred outflows of resources, bond issuance costs, and deferred loss on refunding, are reported only in the government-wide statement of net position. These amounts are deferred and recognized as an outflow of resources in the period that the amounts are consumed.

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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three items, two which arise under both the accrual basis of accounting and the modified accrual basis of accounting, and one that arises under only the accrual basis of accounting, that qualify for reporting in this category. Deferred grant revenue and deferred property tax revenue are reported on both the government-wide statement of net position and the governmental funds balance sheet. Pension related deferred inflows of resources are reported only in the governmental funds state of net position. The governmental fund reports deferred revenues from two source: property taxes and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. Bonds and capital leases are recognized as a liability in the governmental fund financial statements when due.

Bond Premiums, Discounts and Issuance Costs

On the government-wide statement of net position and proprietary fund type statement of net position, bond premiums and discounts are netted against bonds payable and bond issuance costs are reported as deferred charges. On the government-wide and proprietary fund type statements of activities, bond premiums, discounts and bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

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

Fund Equity

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

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

Nonspendable Fund Balance

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

Restricted Fund Balance

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

**CITY OF WALTHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity - continued

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

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

Operating Revenues and Expenses

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

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Use of Estimates

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

2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial credit risk is the risk that, in event of a bank failure, the City's deposits might not be recovered. The City has two authorized depositories for its deposits and investments. The City follows North Dakota state statutes that authorize the City to make deposits in the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the City to invest in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the State, d) Obligations of the State. As of December 31, 2015, none of the City's bank balances of \$1,130,946 were exposed to custodial credit risk as follows:

Uninsured and collateralized with letters of credit held by the pledging financial institution	\$ 296,364
Uninsured and collateralized with securities held by the pledging financial institution	\$ -
Uninsured and uncollateralized	\$ -

**CITY OF WALTHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

3. PROPERTY TAXES

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

The City records taxes receivable at net realizable value. The City considers all taxes receivable to be collectible as of December 31. The City's policy is to record the net taxes receivable as an asset, with a deferred revenue account to recognize taxes not expected to be available within 60 days. At December 31, 2015, the aging of taxes receivable is as follows:

Pembina County		
0 - 60 days		\$ 3,250
2014		31,434
2013		19,634
2012		-
2011		-
		\$ 54,318

4. CHANGE IN PROPERTY, PLANT AND EQUIPMENT

Governmental Funds

	Beginning Balance	Additions	Deletions	Ending Balance
Sites	\$ -	\$ -	\$ -	\$ -
Buildings/Additions	2,271,440	-	-	2,271,440
Street Paving	2,474,277	-	-	2,474,277
Heavy Equipment	416,874	-	-	416,874
Office Equipment	17,161	-	-	17,161
Vehicles	62,040	-	-	62,040
Airport Project	1,010,646	149,760	-	1,160,406
Less: Accumulated Depreciation	(2,855,699)	(290,825)	-	(3,146,524)
	\$ 3,396,739	\$ (141,065)	\$ -	\$ 3,255,674

Government Activities Depreciation Expense

General Government	\$ 19,090
Public Safety	6,254
Highway and Public Improvement	168,652
Airport	96,829
	\$ 290,825

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

4. CHANGE IN PROPERTY, PLANT AND EQUIPMENT - continued

Business-Type Funds

	Beginning Balance	Additions	Deletions	Ending Balance
Sites	\$ 821,420	\$ -	\$ -	\$ 821,420
Buildings/Additions	2,201,860	-	-	2,201,860
Heavy Equipment	472,235	-	-	472,235
Office Equipment	131,104	-	-	131,104
Vehicles	33,020	-	-	33,020
Less: Accumulated Depreciation	(2,517,940)	(62,341)	-	(2,580,281)
	<u>\$ 1,141,699</u>	<u>\$ (62,341)</u>	<u>\$ -</u>	<u>\$ 1,079,358</u>

Business-Type Activities Depreciation Expense

Water Utility	\$ -
Garbage and Sewer	29,460
Clinic	23,879
Development	9,002
Civic Center	-
	<u>\$ 62,341</u>

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

On January 6, 2014, the City issued \$1,465,000 in Refunding Improvement Bonds of 2014 for a street improvement project. Net proceeds from the bond issue were \$1,451,815 after discounts of \$13,185. Interest accrues at an average rate of 1.81% annually on the outstanding balance. Annual principal payments range from \$190,000 to \$245,000 until maturity on May 1, 2020. The balance on December 31, 2015 was \$995,000 less an un-amortized discount of \$9,142.

On October 23, 2014, the City borrowed \$171,462 from Choice Financial Group to finance street improvements. Interest accrues at 2.95%. The loan matures on April 1, 2020. The balance on the note on December 31, 2015 was \$148,681.

On May 5, 2013, the Walhalla Economic Development Commission borrowed \$100,000 from Citizens State Bank - Midwest, due on demand. The City was guarantor on the loan. In 2013, the Economic Development Commission defaulted on the loan. In 2014, the City agreed to make a series of payments totaling \$25,000. The balance due from the City on December 31, 2015 was \$10,260. See Note 15.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

\$166,000 was borrowed from Choice Financial Group. Interest accrues at 6.65% less a 1.65% interest buy down for the first 5 years. After 5 years, the interest rate will be renegotiated. The loan matures on August 6, 2023, assuming no change in interest rates. The balance on the note on December 31, 2015 was \$128,757.

\$149,500 was borrowed from the State of North Dakota. Interest accrues at 3.0%. Monthly payments of \$1,074 are due until the loan matures on August 6, 2025. The balance on December 31, 2015 was \$106,036.

On January 29, 2014, the City borrowed \$215,398 from United Telephone Mutual Aid Corporation to finance the renovations of the clinic. The loan does not accrue interest and matures on December 31, 2023. Monthly payments begin January 31, 2015. The balance on the note on December 31, 2015 was \$191,465.

On February 24, 2014, the City entered into a \$12,500 interest buydown loan program with Choice Financial Group to buydown the interest expense of Walhalla Ag Service, LLC. Interest accrues at 0.66%. The loan matures on October 10, 2017. The balance on the loan on December 31, 2015 was \$5,069.

On January 7, 2015, the City entered into a \$3,343 interest buydown loan program with Choice Financial Group to buydown the interest expense of Border Health and Fitness, LLC. Interest accrues at 0.66%. The loan matures on June 1, 2018. The balance on the loan on December 31, 2015 was \$1,556.

On January 7, 2015, the City entered into a \$72,000 note payable with Choice Financial Group to refinance the purchase of a 2010 International 7400 truck with a 2010 Loadmaster 25 yard trash packer, and related equipment. Interest accrues at 3.25%. The loan matures on December 15, 2016. The balance on the loan on December 31, 2015 was \$36,511.

On February 4, 2015, the City entered into a \$12,000 interest buydown loan program with Choice Financial Group to buydown the interest expense of Walhalla Ag Service, LLC. Interest accrues at 0.66%. The loan matures on October 10, 2017. The balance on the loan on December 31, 2015 was \$4,676.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

	Beginning Balance	Additions	Retirements	Ending Balance
Refunding Improvement				
Bond - 2014	\$ 1,240,000	\$ -	\$ (245,000)	\$ 995,000
Street Improvement	171,462	-	(22,781)	148,681
EDC Guarantee	25,000	-	(14,740)	10,260
Garbage Truck Note	-	72,000	(35,489)	36,511
Commercial Bldg. #1	137,656	-	(8,899)	128,757
Commercial Bldg. #2	115,589	-	(9,553)	106,036
Clinic Renovation	215,398	-	(23,933)	191,465
Interest Buydowns (3)	8,595	15,273	(12,567)	11,301
Totals	\$1,913,700	\$ 87,273	\$ (372,962)	\$ 1,628,011

	Amount Due in One Year
Refunding Improvement Bond - 2014	215,000
Street Improvement	28,029
EDC Guarantee	10,260
Garbage Truck Note	36,511
Commercial Bldg. #1	9,843
Commercial Bldg. #2	12,002
Interest Buydown	7,433
Clinic Renovation	23,933
	\$ 343,011

Total interest and fiscal charges for the year ended December 31, 2015	\$ 51,381
Accrued Interest at December 31, 2014	(6,566)
Accrued Interest at December 31, 2015	6,685
Interest Expense	\$ 51,500

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ -	\$ 198,243	\$ (78,348)	\$ 119,895
	<u>\$ -</u>	<u>\$ 198,243</u>	<u>\$ (78,348)</u>	<u>\$ 119,895</u>

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

	Bond Principal	Bond Interest	Bond Totals
2016	215,000	13,321	228,321
2017	200,000	11,515	211,515
2018	195,000	9,150	204,150
2019	195,000	6,030	201,030
2020	190,000	2,138	192,138
	<u>\$ 995,000</u>	<u>\$ 42,154</u>	<u>\$ 1,037,154</u>

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

	Note Principal	Note Interest	Note Totals
2016	38,289	4,806	43,095
2017	28,858	3,567	32,425
2018	29,711	2,714	32,425
2019	30,590	1,835	32,425
2020	31,493	932	32,425
	<u>\$ 158,941</u>	<u>\$ 13,854</u>	<u>\$ 172,795</u>

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

	Note Principal	Note Interest	Note Totals
2016	89,722	10,419	100,141
2017	50,100	8,319	58,419
2018	47,646	7,349	54,995
2019	49,023	6,353	55,376
2020	49,763	5,308	55,071
2021	50,770	4,220	54,990
2022	51,906	3,084	54,990
2023	53,093	1,897	54,990
2024	26,178	674	26,852
2025	5,869	48	5,917
	\$ 474,070	\$ 47,671	\$ 521,741

6. INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2015, the Water Fund owes the Cemetery Fund \$6,445 for a past debt.

At December 31, 2015, the Clinic Fund owes the Water Fund \$17,107 and the Garbage and Sewer Fund \$17,107 for an infusion of cash to eliminate a deficit cash balance.

At December 31, 2015, the Swimming Pool Fund owes the Water Fund \$14,646 and the Garbage and Sewer Fund \$14,646 for an infusion of cash to eliminate a deficit cash balance.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

7. INTERFUND OPERATING TRANSFERS

Individual fund operating transfers for the year ended December 31, 2015 were as follows:

<u>Governmental Funds</u>	Transfers In	Code	Transfers Out	Code
General Fund	\$ -		\$ -	
Roads and Streets	-		272,484	a, b
Sales Tax	13,492	a	27,978	a
Debt Service	306,088	a	-	
 <u>Proprietary Funds</u>				
Clinic	7,978	a	13,492	a
Development	247,484	b	261,088	a
	<u>\$ 575,042</u>		<u>\$ 575,042</u>	

- a. Transfer of funds associated with debt service.
- b. Transfer funds associated with special assessment revenues

8. COMPENSATED ABSENCES

The City has implemented the provisions of GASB-16, Accounting for Compensated Absences. As per this provision, probable payments for vested vacation leave, plus associated payroll expenses, have been accrued at the end of each year. The City also provides benefits for sick leave. However, there is no provision for termination payments of accrued sick leave. As per GASB-16, no accrual of accumulated sick leave benefits has been provided.

9. FEDERAL AWARDS

The following is a schedule of significant federal awards received during the year:

Grant Name	Grant Award	Amount Received	Amount Expended
Department of Transportation			
Airport Improvement Program (20.106)			
Airport Hanger Design (2012)	\$ 87,991	\$ 2,607	\$ -
Pavement Rehab Design (2013)	76,641	8,896	7,533
Pavement Rehab Construction (2014)	797,891	176,848	125,893
	<u>\$ 962,523</u>	<u>\$ 188,351</u>	<u>\$ 133,426</u>

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

9. FEDERAL AWARDS - continued

Beginning Accounts Receivable	\$ (72,480)
Ending Accounts Receivable	<u>\$ 17,555</u>
Revenues from Federal Awards	<u>\$ 133,426</u>

10. PENSION PLAN

North Dakota Public Employees Retirement Systems (Main System)

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

NDPERS 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 seven 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; and one member elected by the retired public employees. Effective July 1, 2015, the Board was expanded to include 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 July 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% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

10. PENSION PLAN - continued

Death and Disability Benefits

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

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

Refunds of Member Account Balances

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

Member and Employer Contributions

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

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

10. PENSION PLAN - continued

Member and Employer Contributions - continued

The minimum member contribution is \$25 and the maximum may not exceed the following:

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

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

At December 31, 2015, the City reported a liability of \$119,895 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the City's proportion was .017632 percent.

For the year ended December 31, 2015, the City recognized pension expense of (\$22,062). At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF WALTHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

10. PENSION PLAN - continued

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected actual experience	\$ 3,478	\$ -
Changes of Assumptions	-	10,682
Net difference between projected and actual earnings on pension plan investments	13,854	16,385
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,957	83,596
Employer contributions subsequent to the measurement date	8,299	-
	\$ 27,588	\$ 110,663

\$8,299 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

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

Year ended December 31:	
2016	\$ (19,639)
2017	(19,639)
2018	(19,639)
2019	(14,409)
2020	(18,048)
Thereafter	-
	\$ (91,374)

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

10. PENSION PLAN - continued

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

Actuarial Assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (not set back 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

10. PENSION PLAN - continued

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

Discount Rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan member and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Sensitivity of the City's proportionate share of the net pension liability to changes in discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
City's proportionate share of the net pension liability	<u>\$ 183,853</u>	<u>\$ 119,895</u>	<u>\$ 67,566</u>

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

11. COMMITMENTS AND CONTINGENCIES

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2015 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 combined financial statements for such contingencies.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

11. COMMITMENTS AND CONTINGENCIES - continued

On October 20, 2006 the City entered into an agreement with the North Dakota Department of Commerce to repay them \$270,000 plus interest and dividends as Tarnel USA, Inc. repays its loan to the City and retires 75,000 shares of its preferred stock held by the City. This commitment is scheduled to be fulfilled by 2016. The associated receivable from Tarnel USA, Inc. was written off as uncollectible in 2013.

The City is guarantor on a \$100,00 Walhalla Economic Development loan. During 2013, the Walhalla Economic Development Commission defaulted on the loan. The City agreed to make a series of payments in 2015 and 2016 totaling \$25,000. On May 15, 2016, the City agreed to make payments on the note in the amount of \$5,000 per quarter until the note is paid in full.

12. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

General Fund	\$ 187,767
Economic Development Fund	\$ 286,778
Social Security Fund	\$ 1,966
Retirement Fund	\$ 23,314
Clinic Fund	\$ 617
Swimming Pool Fund	\$ 29,347

At December 31, 2015, the general fund had a deficit balance of \$187,767 to cover unbudgeted costs. The City plans to transfer monetary funds from other funds to cover the deficit balance.

At December 31, 2015, the economic development had a deficit balance of \$286,778. The deficit is primarily due to the write off of worthless securities previously valued at \$270,000. These securities were purchased from the North Dakota Department of Commerce. The City is liable for these loan funds as of December 31, 2015, but is in the process of requesting a release from liability.

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

12. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

At December 31, 2015, the social security fund had a deficit balance of \$1,966 due to unfunded expenditures. The City plans to transfer monetary funds from other funds to cover the deficit balance.

At December 31, 2015, the retirement fund has a deficit balance of \$23,314 due to unfunded expenditures. The City plans to transfer monetary funds from other funds to cover the deficit balance.

At December 31, 2015, the clinic fund has a deficit balance of \$617 due to unfunded expenditures. The City plans to transfer monetary funds from other funds to cover the deficit balance.

At December 31, 2015, the swimming pool fund has a deficit balance of \$29,347 due to unfunded expenditures. The City plans to transfer monetary funds from other funds to cover the deficit balance.

13. RISK MANAGEMENT

The City is exposed to various risks including, but not limited to, losses from worker's compensation, employee health insurance, public liability, and general property and casualty. The City has contracted with third party insurance carriers for specific and aggregate stop loss coverage to limit the City's exposure to losses as follows:

General Liability	\$ 2,000,000	Aggregate limit
Errors and Omission	\$ 2,000,000	Aggregate limit
Real Property	\$ 2,225,875	90% coinsurance
Personal Property	\$ 537,452	90% coinsurance
Outdoor Property	\$ 372,476	90% coinsurance
Leased Real Property	\$ 887,687	90% coinsurance
Leased Personal Property	\$ 179,376	90% coinsurance
Mobile Equipment and Portable Property - City	\$ 525,565	\$500 deductible
Mobile Equipment and Portable Property - Airport	\$ 108,700	\$500 deductible
Physical Damage to Autos	\$ 402,232	Variable deductibles
Products/Completed Operations	\$ 1,000,000	Aggregate limit
Fire Damage	\$ 100,000	Per occurrence
Hired Autos	\$ 2,000,000	Aggregate limit
Extra Expense	\$ 500,000	
Pollutant Cleanup and Removal	\$ 20,000	
Spoilage	\$ 10,000	
Sewer Backup	\$ 10,000	

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

13. RISK MANAGEMENT - continued

Valuable Papers	\$ 25,000	
Electronic Data	\$ 2,500	
Debris Removal	\$ 10,000	
Money and Securities	\$ 5,000	
Personal Property	\$ 5,000	
Ordinance of Law Coverage	\$ 500,000	Demolition
Ordinance of Law Coverage	\$ 500,000	Increased construction cost
Worker's Compensation		Based on rate schedule subject to \$250 deductible
Health Insurance		Various plans through BCBS

There was a no reduction in insurance coverage from the prior year. At no time during the years ended December 31, 2015, 2014, and 2013 did settlements exceed insurance coverage.

14. PRIOR PERIOD ADJUSTMENT

Effective January 1, 2015, the City adopted GASB No. 68 - Accounting and Financial Reporting for Pensions. As required by this professional standard, the City made a prior period adjustment to its net position. The effect of the adjustment is as follows:

Beginning net position as previously reported at December 31, 2014	\$2,255,204
Prior period adjustment - Implementation of GASB 68: Net pension liability (measurement date)	(198,243)
Deferred outflows City's contributions made during the period from July 2014 through December 2014	5,482
Pension plan (measurement date)	6,427
Deferred inflows Pension Plan (measurement date)	<u>(38,698)</u>
Total prior period adjustment	<u>\$ (225,032)</u>
Net position as restated, January 1, 2015	<u><u>\$2,030,172</u></u>

**CITY OF WALHALLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

15. SUBSEQUENT EVENTS

The City is guarantor on a \$100,000 Walhalla Economic Development loan. During 2013, the Walhalla Economic Development Commission defaulted on the loan. The City agreed to make a series of payments in 2015 and 2016 totaling \$25,000. On May 15, 2016, the City agreed to make payments on the note in the amount of \$5,000 per quarter until the note is paid in full.

CITY OF WALHALLA
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND AND ROADS AND STREETS FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund				Roads and Streets Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original Budget	Final Budget		With Final Budget Positive (Negative)	Original Budget	Final Budget		With Final Budget Positive (Negative)
Beginning Fund Balance	\$ (172,981)	\$ (172,981)	\$ (172,981)	\$ -	\$ 195,249	\$ 195,249	\$ 195,249	\$ -
Resources (Inflows)								
Local Sources	\$ 70,000	\$ 70,000	\$ 68,530	\$ (1,470)	\$ -	\$ -	\$ 249,551	\$ 249,551
State Sources	82,500	82,500	94,733	12,233	-	-	74,468	74,468
Federal Sources	-	-	-	-	-	-	-	-
Fees and Other Non-Tax Revenues	28,600	28,600	23,733	(4,867)	-	-	-	-
Other	9,400	9,400	14,044	4,644	-	-	27,227	27,227
Amounts Available for Apportionment	<u>\$ 17,519</u>	<u>\$ 17,519</u>	<u>\$ 28,059</u>	<u>\$ 10,540</u>	<u>\$ 195,249</u>	<u>\$ 195,249</u>	<u>\$ 546,495</u>	<u>\$ 351,246</u>
Charges to Appropriations (Outflows)								
Current								
General Government	\$ 120,817	\$ 120,817	\$ 153,372	\$ (32,555)	\$ -	\$ -	\$ -	\$ -
Public Safety	118,482	118,482	62,454	56,028	-	-	-	-
Highways and Public Improvement	-	-	-	-	-	-	93,543	(93,543)
Health and Welfare	-	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-	-
Economic Development	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-
Airport	-	-	-	-	-	-	-	-
Debt Service								
Principal Retirement	-	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-	-	-	-
Capital Outlay								
Buildings and Equipment	1,000	1,000	-	1,000	-	-	-	-
Total Charges to Appropriation	<u>\$ 240,299</u>	<u>\$ 240,299</u>	<u>\$ 215,826</u>	<u>\$ 24,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,543</u>	<u>\$ (93,543)</u>
Other Financing Sources (Uses)								
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers to Other Funds	-	-	-	-	-	-	(272,484)	(272,484)
Proceeds from Refunding Bonds	-	-	-	-	-	-	-	-
Prior Issue Debt Service Funds	-	-	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-	-	-
Payment to Refund Bond Escrow Agent	-	-	-	-	-	-	-	-
Proceeds from Notes Payable	-	-	-	-	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (272,484)</u>	<u>\$ (272,484)</u>
Ending Fund Balance	<u>\$ (222,780)</u>	<u>\$ (222,780)</u>	<u>\$ (187,767)</u>	<u>\$ 35,013</u>	<u>\$ 195,249</u>	<u>\$ 195,249</u>	<u>\$ 180,468</u>	<u>\$ (14,781)</u>

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

CITY OF WALHALLA
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT FUND AND AIRPORT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Economic Development Fund				Airport Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance
	Original Budget	Final Budget		With Final Budget Positive (Negative)	Original Budget	Final Budget		With Final Budget Positive (Negative)
Beginning Fund Balance	\$ (284,071)	\$ (284,071)	\$ (284,071)	\$ -	\$ 137,879	\$ 137,879	\$ 137,879	\$ -
Resources (Inflows)								
Local Sources	\$ -	\$ -	\$ 1,521	\$ 1,521	\$ 24,000	\$ 24,000	\$ 24,010	\$ 10
State Sources	-	-	-	-	4,200	4,200	13,050	8,850
Federal Sources	-	-	-	-	100,000	100,000	129,441	29,441
Fees and Other Non-Tax Revenues	-	-	-	-	10,600	10,600	11,630	1,030
Other	-	-	-	-	500	500	4,523	4,023
Amounts Available for Apportionment	<u>\$ (284,071)</u>	<u>\$ (284,071)</u>	<u>\$ (282,550)</u>	<u>\$ 1,521</u>	<u>\$ 277,179</u>	<u>\$ 277,179</u>	<u>\$ 320,533</u>	<u>\$ 43,354</u>
Charges to Appropriations (Outflows)								
Current								
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	-	-	-	-	-	-	-	-
Highways and Public Improvement	-	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-	-
Economic Development	49,850	49,850	4,228	45,622	-	-	-	-
Library	-	-	-	-	-	-	-	-
Airport	-	-	-	-	23,090	23,090	26,428	(3,338)
Debt Service								
Principal Retirement	-	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-	-	-	-
Capital Outlay								
Buildings and Equipment	-	-	-	-	100,000	100,000	149,760	(49,760)
Total Charges to Appropriation	<u>\$ 49,850</u>	<u>\$ 49,850</u>	<u>\$ 4,228</u>	<u>\$ 45,622</u>	<u>\$ 123,090</u>	<u>\$ 123,090</u>	<u>\$ 176,188</u>	<u>\$ (53,098)</u>
Other Financing Sources (Uses)								
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers to Other Funds	-	-	-	-	-	-	-	-
Proceeds from Refunding Bonds	-	-	-	-	-	-	-	-
Prior Issue Debt Service Funds	-	-	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-	-	-
Payment to Refund Bond Escrow Agent	-	-	-	-	-	-	-	-
Proceeds from Notes Payable	-	-	-	-	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending Fund Balance	<u>\$ (333,921)</u>	<u>\$ (333,921)</u>	<u>\$ (286,778)</u>	<u>\$ 47,143</u>	<u>\$ 154,089</u>	<u>\$ 154,089</u>	<u>\$ 144,345</u>	<u>\$ (9,744)</u>

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

CITY OF WALHALLA
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SALES TAX FUND AND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Sales Tax Fund				Debt Service Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget			Original Budget	Final Budget		
Beginning Fund Balance	\$ 186,359	\$ 186,359	\$ 186,359	\$ -	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)								
Local Sources	\$ -	\$ -	\$ 177,870	\$ 177,870	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-	-	-	-	-
Federal Sources	-	-	-	-	-	-	-	-
Fees and Other Non-Tax Revenues	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Amounts Available for Apportionment	\$ 186,359	\$ 186,359	\$ 364,229	\$ 177,870	\$ -	\$ -	\$ -	\$ -
Charges to Appropriations (Outflows)								
Current								
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	-	-	-	-	-	-	-	-
Highways and Public Improvement	-	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-	-
Economic Development	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-
Airport	-	-	-	-	-	-	-	-
Debt Service								
Principal Retirement	-	-	-	-	-	282,521	(282,521)	-
Interest and Fiscal Charges	-	-	-	-	-	23,567	(23,567)	-
Bond Issuance Costs	-	-	-	-	-	-	-	-
Capital Outlay								
Buildings and Equipment	-	-	-	-	-	-	-	-
Total Charges to Appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 306,088	\$ (306,088)
Other Financing Sources (Uses)								
Transfers from Other Funds	\$ -	\$ -	\$ 13,492	\$ 13,492	\$ -	\$ -	\$ 306,088	\$ 306,088
Transfers to Other Funds	-	-	(27,978)	(27,978)	-	-	-	-
Proceeds from Refunding Debt	-	-	-	-	-	-	-	-
Prior Issue Debt Service Funds	-	-	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-	-	-
Payment to Refund Bond Escrow Agent	-	-	-	-	-	-	-	-
Proceeds from Notes Payable	-	-	-	-	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (14,486)	\$ (14,486)	\$ -	\$ -	\$ 306,088	\$ 306,088
Ending Fund Balance	\$ 186,359	\$ 186,359	\$ 349,743	\$ 163,384	\$ -	\$ -	\$ -	\$ -

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

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

	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.017632%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 119,895
Employer's Covered-Employee Payroll	\$ 157,082
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	76.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.15%
Plan Measurement Date	June 30, 2015

NOTE: GASB Statement No. 68 requires 10 years of information to be represented in this table. However, until a full ten year trend is compiled, the City will present information for those years for which information is available.

**CITY OF WALHALLA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

	2015
Statutorily Required Contribution	\$ 11,931
Contributions in Relation to the Statutorily Required Contribution	\$ (14,281)
Contribution Deficiency (Excess)	\$ (2,350)
Employer's Covered-Employee Payroll	\$ 157,082
Contributions as a Percentage of Covered-Employee Payroll	9.09%
Plan Measurement Date	June 30, 2015

NOTE: GASB Statement No. 68 requires 10 years of information to be represented in this table. However, until a full ten year trend is compiled, the City will present information for those years for which information is available.

**CITY OF WALHALLA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. GENERAL BUDGET

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

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

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

During the year ended December 31, 2015, the City's expenditures exceeded appropriations in the following major funds as follows:

	<u>Amount</u>	<u>Explanation</u>
General Fund		
General	\$ 32,555	Caused primarily by excess auditor costs and underbudgeted operating expenses
Government		
Roads and Streets Fund		
Highway and Public Improvements	\$ 93,543	Caused by not budgeting for fund
Transfer to Other Funds	272,484	Caused by not budgeting for fund
	<u>\$ 366,027</u>	
Airport Fund		
Airport	\$ 3,338	Caused by excess repairs and maintenance
Capital Outlay	49,760	Caused by excess capital expenditures
	<u>\$ 53,098</u>	
Sales Tax Fund		
Transfer to Other Funds	\$ 27,978	Caused by not budgeting for fund
	<u></u>	
Debt Service Fund		
Principal Retirement	\$ 282,521	Caused by not budgeting for fund
Interest and Fiscal Charges	23,567	Caused by not budgeting for fund
	<u>\$ 306,088</u>	

**CITY OF WALHALLA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

2. CHANGES OF ASSUMPTIONS - PENSIONS

The actuarial assumptions used in the July 1, 2015 valuation were based on results of an experience study for the period of July 1, 2009 to June 30, 2014.

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

To the City Council
City of Walhalla
Walhalla, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Walhalla as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 11, 2017.

Internal Control Over Financial Reporting

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

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 deficiencies 2015-002, 2015-003, 2015-004, 2015-005 and 2015-006 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 2015-001 described in the accompany schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

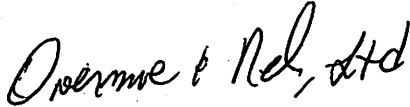
As part of obtaining reasonable assurance about whether the City of Walhalla's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-007.

City of Walhalla's Response to Findings

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

Purpose of this Report

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



OVERMOE & NELSON, LTD.
Certified Public Accountants
Grand Forks, North Dakota

October 11, 2017

**CITY OF WALHALLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reference 2015-001 Segregation of Duties (A Significant Deficiency)

Criteria

Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition

The **City of Walhalla** has one accountant responsible for most accounting functions. The accountant collects monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial reports.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

Transactions could be mishandled.

Cause

There is one accountant for multiple functions such as executing and recording transactions.

Recommendation

The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation. The City Council should provide some of these controls.

Views of Responsible Officials and Planned Corrective Actions

Due to the size of the City, it is not feasible to obtain proper segregation of duties. The cost of adding personnel in order to obtain a proper segregation of duties exceeds the benefit.

Reference 2015-002 Internal Control Document (A Material Weakness)

Criteria

An adequate internal control document provides policies and procedures to be used in the preparation of financial statements, significant accounts and processes, and safeguarding of assets of the City, and provides for processes to report deficiencies in internal control to management.

Condition

The **City of Walhalla** has no formal written internal control document.

Questioned Costs

None

Context

This condition existed for the entire year.

**CITY OF WALHALLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reference 2015-002 Internal Control Document (A Material Weakness) - continued

Effect

The accountant has no written guidelines for performing assigned tasks.

Cause

The City Council did not complete a formal written internal control document.

Recommendation

The City Council should develop a written internal control document appropriate for a single member accounting staff.

Views of Responsible Officials and Planned Corrective Actions

The City Council will attempt to produce an internal control document.

Reference 2015-003 Monitoring (A Material Weakness)

Criteria

An adequate monitoring of internal control gives assurance that the controls are functioning as designed.

Condition

The **City of Walhalla** has no formal written internal control document nor a document to monitor whether such internal controls are functioning as designed.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The City Council is not aware whether internal controls are functioning or not.

Cause

The City Council did not complete a formal written internal control document, nor a document to monitor whether such internal controls are functioning as designed.

Recommendation

The City Council should develop a written internal control monitoring document appropriate for its internal control document.

Views of Responsible Officials and Planned Corrective Actions

The City Council will include a monitoring component to its internal controls.

**CITY OF WALHALLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reference 2015-004 Internal Controls (A Material Weakness)

Criteria

An adequate system of controls over computer-generated spreadsheets is necessary for proper accounting management.

Condition

The **City of Walhalla** has no formal system in place to reconcile, maintain, protect and correct various spreadsheets used in the accounting function.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The City Council is not aware whether computer-generated spreadsheets contain errors, are adequately protected, properly updated and properly deleted.

Cause

The City Council did not implement a control over computer-generated spreadsheets.

Recommendation

The City Council should design procedures for the reconciling, review, protection and maintenance of computer-generated spreadsheets used by the City in its accounting function.

Views of Responsible Officials and Planned Corrective Actions

The City Council will consider creating a monitoring component to its internal controls.

Reference 2015-005 Audit Adjustments (A Material Weakness)

Criteria

An adequate system of controls requires that the City prepare and present fairly financial statements, and the related notes to the financial statements, in accordance with government accounting standards.

Condition

The **City of Walhalla's** accounting records required adjustments to cash, accounts receivable, notes receivable, accounts payable, payroll tax liabilities, long-term debt, transfers of funds, amortization and depreciation.

Questioned Costs

None

Context

This condition existed for the entire year.

**CITY OF WALHALLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reference 2015-005 Audit Adjustments (A Material Weakness) - continued

Effect

The City's internal financial reports were misstated throughout the year.

Cause

The accountant prepares the City's financial statements on the cash basis of accounting which is not in accordance with government accounting standards.

Recommendation

The accountant should strive to ensure the general ledger is maintained in accordance with government accounting standards.

Views of Responsible Officials and Planned Corrective Actions

The City Council will consider additional training opportunities for the accountant and will consider hiring outside accountants to assist with preparing financial statements and the related required disclosures in accordance with government accounting standards prior to the financial statement audit.

Reference 2015-006 Financial Statements (A Material Weakness)

Criteria

An appropriate system of internal controls requires that the City must make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

Condition

The **City of Walhalla** does not have internal controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by accounting principles generally accepted in the United States of America.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The lack of appropriate disclosures may affect the user's judgment related to net position and changes in net position.

Cause

The accountant does not maintain knowledge of current accounting principles and required financial statement disclosure requirements.

**CITY OF WALHALLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reference 2015-006 Financial Statements (A Material Weakness) - continued

Recommendation

Compensating controls over financial statement disclosure requirements could be provided by the use of current disclosure checklists or the outsourcing of the financial statement preparation and review functions.

Views of Responsible Officials and Planned Corrective Actions

The City Council will analyze the cost versus benefit of the use of current disclosure checklists.

Reference 2015-007 (Noncompliance)

Criteria

The North Dakota Office of the State Auditor requires audit reports to be submitted within one year after the end of the audit period.

Condition

The audit report for the fiscal year ended December 31, 2015 was not submitted by December 31, 2016.

Questioned Costs

None

Context

This condition existed subsequent to its fiscal year end.

Effect

The City is not in compliance with the Office of the State Auditor.

Cause

The City did not adjust its audit schedule to comply with the requirement of the Office of the State Auditor.

Recommendation

The City should schedule its audit so that the audit report can be submitted to the Office of the State Auditor in a timely manner.

Views of Responsible Officials and Planned Corrective Actions

The City Council will consider hiring additional staff to assist with the timely preparation of annual financial statements.