

**CITY OF RUGBY
RUGBY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

City Council
City of Rugby
Rugby, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 of 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 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 modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of December 31, 2017, and the respective changes in modified cash basis financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of the City of Rugby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rugby's internal control over financial reporting and compliance.



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

December 20, 2018

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2017

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|---------------------|---------------------------------------|
| | Governmental Activities | Business-type Activities | Total | Rugby Job Development Authority |
| ASSETS | | | | |
| Cash and equivalents | \$ 1,901,967 | \$ 1,038,192 | \$ 2,940,159 | \$ 372,535 |
| Investments | 22,390 | - | 22,390 | 172,074 |
| Land held for resale | - | - | - | 610,998 |
| Notes receivable | - | - | - | 19,500 |
| Other assets, net of amortization | - | - | - | 15,223 |
| Capital assets | | | | |
| Land, improvements, and construction in progress not being depreciated | 237,332 | 117,475 | 354,807 | - |
| Buildings and infrastructure, net of depreciation | 8,103,437 | 2,791,355 | 10,894,792 | 666,250 |
| Equipment and vehicles, net of depreciation | 531,698 | 128,981 | 660,679 | - |
| Total assets | <u>10,796,824</u> | <u>4,076,003</u> | <u>14,872,827</u> | <u>1,856,580</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Due within one year | | | | |
| Bonds and notes | 420,095 | 40,000 | 460,095 | 36,766 |
| Long-term liabilities | | | | |
| Due in more than one year | | | | |
| Bonds and notes | 4,340,957 | 381,515 | 4,722,472 | 306,588 |
| Total liabilities | <u>4,761,052</u> | <u>421,515</u> | <u>5,182,567</u> | <u>343,354</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 4,111,415 | 2,616,296 | 6,727,711 | 343,495 |
| Restricted for: | | | | |
| Capital projects | 916,804 | - | 916,804 | - |
| Debt service | 462,375 | - | 462,375 | - |
| Other purposes | 222,447 | - | 222,447 | - |
| Unrestricted | 322,731 | 1,038,192 | 1,360,923 | 1,169,731 |
| Total net position | <u>\$ 6,035,772</u> | <u>\$ 3,654,488</u> | <u>\$ 9,690,260</u> | <u>\$ 1,513,226</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

| Functions/Programs | Program Revenue | | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit |
|--|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Job Development Authority | |
| | | | | | Governmental Activities | Business-type Activities | | |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| General government | \$ 523,910 | \$ 85,312 | \$ - | \$ - | \$ (438,598) | \$ - | \$ (438,598) | |
| Public safety | 491,751 | - | - | - | (491,751) | - | (491,751) | |
| Public works | 914,576 | 77,500 | - | - | (837,076) | - | (837,076) | |
| Urban and economic development | 51,245 | - | - | - | (51,245) | - | (51,245) | |
| Culture and recreation | 162,019 | 43,310 | - | - | (118,709) | - | (118,709) | |
| Interest and other charges | 216,172 | - | - | - | (216,172) | - | (216,172) | |
| Total governmental activities | <u>2,359,673</u> | <u>206,122</u> | <u>-</u> | <u>-</u> | <u>(2,153,551)</u> | <u>-</u> | <u>(2,153,551)</u> | |
| Business-type activities | | | | | | | | |
| Water operating | 723,903 | 859,786 | - | - | - | 135,883 | 135,883 | |
| Sanitation sewer operations | 105,324 | 292,497 | - | - | - | 187,173 | 187,173 | |
| Garbage | 288,451 | 298,413 | - | - | - | 9,962 | 9,962 | |
| Total business-type activities | <u>1,117,678</u> | <u>1,450,696</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>333,018</u> | <u>333,018</u> | |
| Total primary government | <u>\$ 3,477,351</u> | <u>\$ 1,656,818</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,153,551)</u> | <u>\$ 333,018</u> | <u>\$ (1,820,533)</u> | |
| Component Units | | | | | | | | |
| Job Development Authority | <u>\$ 384,243</u> | <u>\$ 67,303</u> | <u>\$ -</u> | <u>\$ -</u> | | | <u>\$ (316,940)</u> | |
| Total component units | <u>\$ 384,243</u> | <u>\$ 67,303</u> | <u>\$ -</u> | <u>\$ -</u> | | | <u>\$ (316,940)</u> | |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes, levied for general purposes | | | | | \$ 748,710 | \$ - | \$ 748,710 | \$ - |
| Property taxes, levied for specific purposes | | | | | 671,741 | - | 671,741 | - |
| Municipal highway tax | | | | | 182,133 | - | 182,133 | - |
| State aid distribution | | | | | 192,419 | - | 192,419 | - |
| Sales tax collections | | | | | 487,766 | - | 487,766 | 262,643 |
| Other taxes | | | | | 8,525 | - | 8,525 | 11,916 |
| Unrestricted investment earnings | | | | | 2,228 | - | 2,228 | 941 |
| Other revenue | | | | | 156,247 | - | 156,247 | - |
| Total general revenues, special items, and transfers | | | | | <u>2,449,769</u> | <u>-</u> | <u>2,449,769</u> | <u>275,500</u> |
| Change in net position | | | | | 296,218 | 333,018 | 629,236 | (41,440) |
| Net position - beginning | | | | | <u>5,739,554</u> | <u>3,321,470</u> | <u>9,061,024</u> | <u>1,575,415</u> |
| Net position - ending | | | | | <u>\$ 6,035,772</u> | <u>\$ 3,654,488</u> | <u>\$ 9,690,260</u> | <u>\$ 1,513,226</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2017

| | General Fund | District 2017-1 Debt Service | Infrastructure Maintenance Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|---------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 322,731 | \$ 43,175 | \$ 806,347 | \$ 729,714 | \$ 1,901,967 |
| Investments | - | - | - | 22,390 | 22,390 |
| Total assets | <u>\$ 322,731</u> | <u>\$ 43,175</u> | <u>\$ 806,347</u> | <u>\$ 752,104</u> | <u>\$ 1,924,357</u> |
| Fund balances: | | | | | |
| Restricted | \$ - | \$ 43,175 | \$ 806,347 | \$ 752,104 | \$ 1,601,626 |
| Unassigned | 322,731 | - | - | - | 322,731 |
| Total fund balances | <u>322,731</u> | <u>43,175</u> | <u>806,347</u> | <u>752,104</u> | <u>1,924,357</u> |
| Total liabilities and fund balances | <u>\$ 322,731</u> | <u>\$ 43,175</u> | <u>\$ 806,347</u> | <u>\$ 752,104</u> | <u>\$ 1,924,357</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2017

| | | |
|--|----|-----------|
| Total fund balance, governmental funds | \$ | 1,924,357 |
|--|----|-----------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities on the Statement of Net Position

| | | |
|--------------------------|--------------------|-----------|
| Capital Assets | \$ 13,963,722 | |
| Accumulated Depreciation | <u>(5,091,255)</u> | 8,872,467 |

Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

| | | |
|--|--|--------------------|
| Bonds and notes payable, net of unamortized bond discounts | | <u>(4,761,052)</u> |
|--|--|--------------------|

| | | |
|--|----|-------------------------|
| Net assets of governmental activities in the Statement of Net Position | \$ | <u><u>6,035,772</u></u> |
|--|----|-------------------------|

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | General Fund | District 2017-1 Debt Service | Infrastructure Maintenance Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|---------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes and special assessments | \$ 692,060 | \$ 160,579 | \$ - | \$ 567,812 | \$ 1,420,451 |
| Sales and miscellaneous taxes | 8,525 | - | 487,766 | 182,133 | 678,424 |
| Fees and fines | 15,951 | - | - | 56,954 | 72,905 |
| Licenses and permits | 16,520 | - | - | - | 16,520 |
| Intergovernmental | 223,046 | - | - | - | 223,046 |
| Charges for services | 23,471 | - | 20,489 | 42,053 | 86,013 |
| Investment earnings | 2,159 | - | - | 69 | 2,228 |
| Other revenue | 48,713 | 23,120 | - | 110,937 | 182,770 |
| Total revenues | <u>1,030,445</u> | <u>183,699</u> | <u>508,255</u> | <u>959,958</u> | <u>2,682,357</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 395,310 | 3 | - | 38,620 | 433,933 |
| Public safety | 485,060 | - | - | 450 | 485,510 |
| Public works | 5,863 | - | 44,745 | 242,287 | 292,895 |
| Urban and economic development | - | - | - | 51,245 | 51,245 |
| Culture and recreation | 61,617 | - | - | 100,402 | 162,019 |
| Debt service: | | | | | |
| Principal | 9,912 | 820,000 | - | 160,000 | 989,912 |
| Interest and other charges | 588 | 158,468 | - | 55,324 | 214,380 |
| Capital outlay | - | - | - | 167,311 | 167,311 |
| Total expenditures | <u>958,350</u> | <u>978,471</u> | <u>44,745</u> | <u>815,639</u> | <u>2,797,205</u> |
| Excess (deficiency) of revenues over expenditures | <u>72,095</u> | <u>(794,772)</u> | <u>463,510</u> | <u>144,319</u> | <u>(114,848)</u> |
| Other financing sources (uses) | | | | | |
| Refunding bonds issued | - | 2,005,000 | - | - | 2,005,000 |
| Payoff of bonds refunded | - | (2,005,000) | - | - | (2,005,000) |
| Bond premium | - | 59,492 | - | - | 59,492 |
| Proceeds from sale of capital assets | 510 | - | - | - | 510 |
| Transfers in | 97,883 | 241,668 | - | 252,302 | 591,853 |
| Transfers out | (72,300) | - | (484,416) | (35,137) | (591,853) |
| Total other financing sources and uses | <u>26,093</u> | <u>301,160</u> | <u>(484,416)</u> | <u>217,165</u> | <u>60,002</u> |
| Net change in fund balances | 98,188 | (493,612) | (20,906) | 361,484 | (54,846) |
| Fund balance - beginning | 224,543 | 536,787 | 827,253 | 390,620 | 1,979,203 |
| Fund balances - ending | <u>\$ 322,731</u> | <u>\$ 43,175</u> | <u>\$ 806,347</u> | <u>\$ 752,104</u> | <u>\$ 1,924,357</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Net change in fund balances - total governmental funds: \$ (54,846)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

| | |
|----------------------|-----------|
| Capital outlays | 167,311 |
| Depreciation expense | (680,885) |

| | |
|--------------------------------------|----------|
| Net effect of trade of capital asset | (38,252) |
|--------------------------------------|----------|

Proceeds from long-term debt provides financial resources to the governmental funds but the issuance increases long-term liabilities in the statement of net position. (2,005,000)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 2,994,912

Governmental funds report the effects of premiums, discounts, and similar items when debt is first issued. In contrast, these amounts are deferred and amortized in the Statement of Activities.

| | |
|---------------|----------|
| Bond premiums | (59,492) |
| Amortization | (27,530) |

| | |
|---|-------------------|
| Change in net position of governmental activities | <u>\$ 296,218</u> |
|---|-------------------|

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Original and Final Budget | Actual Amounts, Modified Cash Basis | Variance with Final Budget - Positive (Negative) |
|--|---------------------------------|--|--|
| Revenues | | | |
| Taxes and special assessments | \$ 734,127 | \$ 692,060 | \$ (42,067) |
| Sales and miscellaneous taxes | 8,500 | 8,525 | 25 |
| Fees and fines | 17,000 | 15,951 | (1,049) |
| Licenses and permits | 16,600 | 16,520 | (80) |
| Intergovernmental | 241,575 | 223,046 | (18,529) |
| Charges for services | 1,300 | 23,471 | 22,171 |
| Investment earnings | 1,000 | 2,159 | 1,159 |
| Other revenue | 42,000 | 48,713 | 6,713 |
| Total revenues | <u>1,062,102</u> | <u>1,030,445</u> | <u>(31,657)</u> |
| Expenditures | | | |
| Current: | | | |
| General government | 388,417 | 395,310 | (6,893) |
| Public safety | 537,404 | 485,060 | 52,344 |
| Public works | 6,140 | 5,863 | 277 |
| Culture and recreation | 77,249 | 61,617 | 15,632 |
| Debt Service: | | | |
| Principal | - | 9,912 | (9,912) |
| Interest and other charges | - | 588 | (588) |
| Capital outlay | 1,500 | - | 1,500 |
| Total expenditures | <u>1,010,710</u> | <u>958,350</u> | <u>52,360</u> |
| Excess (deficiency) of revenues over expenditures | <u>51,392</u> | <u>72,095</u> | <u>20,703</u> |
| Other financing sources (uses) | | | |
| Proceeds from sale of capital assets | - | 510 | 510 |
| Transfers in | - | 97,883 | 97,883 |
| Transfers out | - | (72,300) | (72,300) |
| Total other financing sources and uses | <u>-</u> | <u>26,093</u> | <u>26,093</u> |
| Net change in fund balances | 51,392 | 98,188 | 46,796 |
| Fund balances - beginning | 224,543 | 224,543 | 251,614 |
| Fund balances - ending | <u>\$ 275,935</u> | <u>\$ 322,731</u> | <u>\$ 298,410</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2017

| | Water Operating | Garbage | Other Enterprise Funds | Total |
|----------------------------------|--------------------|-----------------|------------------------------|--------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 345,702 | \$ 38,733 | \$ 653,757 | \$ 1,038,192 |
| Total current assets | <u>345,702</u> | <u>38,733</u> | <u>653,757</u> | <u>1,038,192</u> |
| Non-current assets: | | | | |
| Capital assets: | | | | |
| Land and improvements | 52,420 | - | - | 52,420 |
| Construction in progress | 65,055 | - | - | 65,055 |
| Buildings and infrastructure | 4,480,054 | - | 14,592 | 4,494,646 |
| Equipment and vehicles | 249,042 | - | 172,437 | 421,479 |
| Less accumulated depreciation | (1,925,115) | - | (70,674) | (1,995,789) |
| Total non-current assets | <u>2,921,456</u> | <u>-</u> | <u>116,355</u> | <u>3,037,811</u> |
| Total assets | <u>3,267,158</u> | <u>38,733</u> | <u>770,112</u> | <u>4,076,003</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Bonds, notes and loans payable | 40,000 | - | - | 40,000 |
| Total current liabilities | <u>40,000</u> | <u>-</u> | <u>-</u> | <u>40,000</u> |
| Non-current liabilities: | | | | |
| Bonds, notes and loans payable | 381,515 | - | - | 381,515 |
| Total non-current liabilities | <u>381,515</u> | <u>-</u> | <u>-</u> | <u>381,515</u> |
| Total liabilities | <u>421,515</u> | <u>-</u> | <u>-</u> | <u>421,515</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 2,499,941 | - | 116,355 | 2,616,296 |
| Unrestricted | 345,702 | 38,733 | 653,757 | 1,038,192 |
| Total net position | <u>\$2,845,643</u> | <u>\$38,733</u> | <u>\$ 770,112</u> | <u>\$3,654,488</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Water Operating | Garbage | Other Enterprise Funds | Total |
|---|--------------------|------------------|------------------------------|--------------------|
| Revenues | | | | |
| Charges for services | \$ 859,786 | \$298,413 | \$292,497 | \$ 1,450,696 |
| Total operating revenues | <u>859,786</u> | <u>298,413</u> | <u>292,497</u> | <u>1,450,696</u> |
| Operating expenses | | | | |
| Water operating | 485,469 | - | - | 485,469 |
| Sanitary sewer | - | - | 94,276 | 94,276 |
| Garbage | - | 288,451 | - | 288,451 |
| Depreciation | 226,925 | - | 11,048 | 237,973 |
| Total operating expenses | <u>712,394</u> | <u>288,451</u> | <u>105,324</u> | <u>1,106,169</u> |
| Operating income (loss) | <u>147,392</u> | <u>9,962</u> | <u>187,173</u> | <u>344,527</u> |
| Non-operating revenues (expenses) | | | | |
| Interest expense | (11,509) | - | - | (11,509) |
| Total non-operating revenues (expenses) | <u>(11,509)</u> | <u>-</u> | <u>-</u> | <u>(11,509)</u> |
| Income before contributions and transfers | <u>135,883</u> | <u>9,962</u> | <u>187,173</u> | <u>333,018</u> |
| Transfers in | 50,717 | - | 459,000 | 509,717 |
| Transfers out | (409,000) | - | (100,717) | (509,717) |
| Total transfers | <u>(358,283)</u> | <u>-</u> | <u>358,283</u> | <u>-</u> |
| Change in net position | (222,400) | 9,962 | 545,456 | 333,018 |
| Total net position - beginning | 3,068,043 | 28,771 | 224,656 | 3,321,470 |
| Total net position - ending | <u>\$2,845,643</u> | <u>\$ 38,733</u> | <u>\$770,112</u> | <u>\$3,654,488</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Water Fund | Garbage | Other Enterprise Funds | Total |
|---|-------------------|------------------|------------------------------|--------------------|
| Cash flows from operating activities | | | | |
| Receipts from customers and users | \$ 859,786 | \$298,413 | \$ 292,497 | \$1,450,696 |
| Payments to suppliers and employees | (485,469) | (288,451) | (94,276) | (868,196) |
| Net cash provided (used) by operating activities | <u>374,317</u> | <u>9,962</u> | <u>198,221</u> | <u>582,500</u> |
| Cash flows from non-capital financing activities | | | | |
| Net cash transfers | (358,283) | - | 358,283 | - |
| Net cash provided by noncapital and related financing activities | <u>(358,283)</u> | <u>-</u> | <u>358,283</u> | <u>-</u> |
| Cash flows from capital and related financing activities | | | | |
| Repayment of long-term debt | (40,000) | - | - | (40,000) |
| Interest paid on long-term debt | (16,334) | - | - | (16,334) |
| Purchase of capital assets | (60,190) | - | - | (60,190) |
| Net cash used by capital and related financing activities | <u>(116,524)</u> | <u>-</u> | <u>-</u> | <u>(116,524)</u> |
| Net change in cash and cash equivalents | (100,490) | 9,962 | 556,504 | 465,976 |
| Cash and cash equivalents, January 1 | 446,192 | 28,771 | 97,253 | 572,216 |
| Cash and cash equivalents, December 31 | <u>\$ 345,702</u> | <u>\$ 38,733</u> | <u>\$ 653,757</u> | <u>\$1,038,192</u> |
| Reconciliation of operating income to net cash from operating activities: | | | | |
| Operating income | \$ 147,392 | \$ 9,962 | \$ 187,173 | \$ 344,527 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation expense | 226,925 | - | 11,048 | 237,973 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | - | - | - | - |
| Accounts payable | - | - | - | - |
| Net cash provided (used) by operating activities | <u>\$ 374,317</u> | <u>\$ 9,962</u> | <u>\$ 198,221</u> | <u>\$ 582,500</u> |

See Notes To The Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2017

| | <u>Agency Funds</u> |
|---------------------------|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 187 |
| Total assets | <u>\$ 187</u> |
| | |
| LIABILITIES | |
| Due to other governments | \$ 187 |
| Total liabilities | <u>\$ 187</u> |

See Notes To The Financial Statements

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

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Rugby operates under a City Council form of government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The financial statements of the reporting entity include those of the City of Rugby (the primary government), its component units, and other organizations that are included to ensure that the financial statements are not misleading. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of an organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the City. Fiscal dependence can include the City's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Rugby Job Development Authority (JDA)

The City's JDA governing board is appointed by the City's governing board. The City does not have authority to approve or modify the JDA's operations. The JDA has the authority to issue its own debt.

Based on the above criteria, the Rugby JDA is a discretely presented component unit of the City of Rugby. The component unit column in the government-wide financial statements includes the financial data of the City's one component unit. The unit is reported in a separate column to emphasize that it is legally separate from the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation

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

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

Government-wide Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the City as a whole.

The statement of net position presents the financial condition of the governmental activities of the City at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the City. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

The government-wide financial statements do not include fiduciary funds or component units that are fiduciary in nature.

Fund Financial Statements

In order to aid financial management and to demonstrate legal compliance, the City segregates transactions related to certain functions or activities in separate funds. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of the governmental and enterprise fund financial statements is on major funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column.

Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. There are three categories of funds: governmental, proprietary, and fiduciary. The funds of the City are described below:

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

Governmental Funds

Governmental funds are utilized to account for most of the City's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The City's major governmental funds are as follows:

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

Special revenue funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City does not have any major funds that are reported as a special revenue fund.

Capital project funds – These funds account for the financial resources associated with the City's capital projects. The City reports the following major capital project funds:

Infrastructure and maintenance fund – This capital project fund is used to account for a portion of the City sales tax collections and payments dedicated to maintaining the City's infrastructure. This fund is also funded with bond proceeds.

Debt service funds – These funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. They include the accumulation of resources for, and payment of, special assessments debt, which is backed by the full faith and credit of the City of Rugby. The City reports the following major debt service funds:

District 2017-1 debt service – This fund is used to account for the accumulation of resources for and the payment of, principal, interest and related costs of the City's infrastructure projects above.

Proprietary Funds

The reporting focus of proprietary funds is on the determination of net income, financial position, and changes in financial position (economic resources). These funds are used to account for activities which are similar to those found in the private sector. The funds are maintained on the modified cash basis of accounting. The City has the following major proprietary funds:

Water operating - This fund is used to account for the provision of water services to the residents of the City.

Garbage – This fund is used to account for the provisions of garbage pickup and landfill services to the residents of the City.

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

Fiduciary Funds (not included in government-wide statements)

Fiduciary funds reporting focuses on net position and changes in net position. The City's only fiduciary funds are agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe "how" transactions are recorded within various financial statements.

Government-wide financial statements: In the government-wide Statement of Net Position and the Statement of Activities, the government-type activities, business-type activities, and the component unit are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Fund financial statements: In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate.

- a. All governmental funds utilize a "current financial resources" measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City of Rugby's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

- c. The fiduciary funds are reported using the economic resources measurement focus. Agency funds are not involved in the measurement of operations; therefore, measurement focus is not applicable to them.

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

Basis of Accounting

The basis of accounting determines “when” transactions are recorded regardless of the measurement focus applied.

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

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

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

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified cash basis of accounting. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.

On or before August 1 of each year, all departments of the City submit requests for appropriation to the City's auditor so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. A preliminary budget is to be prepared on or before September 10 of each year.

Before October 1, the proposed budget is presented to the City's council for review. The City's council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City's auditor or the revenue estimates must be changed by an affirmative vote of a majority of the City's council. Expenditures may not legally exceed budgeted appropriations at the activity level. The final budget and tax levy must be approved by October 7, with the final budget being submitted to the County auditor no later than October 10.

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

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Investments

Investments are recorded at fair value. North Dakota state statute authorizes Cities to invest their surplus funds 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, c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) obligations of the state. As of December 31, 2017, all of the City's investments consisted of certificates of deposit with local financial institutions that did not meet the criteria of cash and cash equivalents.

Land Held for Resale

The Rugby JDA currently owns 44 lots that are being developed for resale.

Capital Assets

Capital assets, which include infrastructure, property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the City's fiscal year. Improvements that significantly extend the useful life of the asset are also capitalized.

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.

All capital assets are depreciated over their estimated useful lives on a straight-line basis. A capitalization threshold of \$500 is used to report capital assets. The City of Rugby has established the following useful lives:

| | |
|------------------------------|-----------------|
| Buildings and Infrastructure | 20 to 100 years |
| Machinery and Vehicles | 5 to 20 years |

Premiums/Discount

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. For all fund types, issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Premiums and discounts on bonds will be amortized on a straight-line basis over the life of the loan associated with the premium or discount. The amortization expense will be included with interest expense in the governmental activities' column of the government-wide financial statements.

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

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset.

Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on the City. External restrictions may be imposed through state or local laws, and grant or contract provisions.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as inventory, prepaid items, and loans receivable.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the Council.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the Council and/or management.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

The City has classified the spendable fund balances as Restricted and Unassigned and considers each to have been spent when expenditures are incurred.

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

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

3) Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.

4) Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-wide financial statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.

2) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Use of Estimates

The preparation of the financial statements in conformity with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 CUSTODIAL CREDIT RISK

This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “all state funds must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

The City does have a deposit policy. The City maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2017, the City’s bank balance totaled \$3,022,637. Of the bank balance, \$399,516 is covered by FDIC insurance and the remainder is covered by pledged collateral.

The JDA maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2017, the JDA’s bank balance totaled \$547,742, all of which is covered by FDIC insurance.

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

NOTE 4 PROPERTY TAXES

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1st of the year following the assessment date.

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15th. Penalty and interest are added on March 1st if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid.

Taxes are collected by the county and remitted monthly to the City.

NOTE 5 NOTES RECEIVABLE – COMPONENT UNIT

The Job Development Authority issued two forgivable loans during 2016, one for \$15,000 due in five annual installments and one for \$7,500 due in three annual installments. Loan requirements will be reviewed on an annual basis on the loan anniversary date at which point annual installments will be forgiven if it is determined the borrower is in compliance. In the event of noncompliance, the annual installment will be due and payable along with interest at a rate of 6 percent. As of December 31, 2017, \$3,000 had been forgiven on the above loans.

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 are as follows:

| | <u>Balance 1/1/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/2017</u> |
|---|-----------------------------|--------------------|------------------|-------------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 237,332 | \$ - | \$ - | \$ 237,332 |
| Total capital assets not being depreciated | <u>237,332</u> | <u>-</u> | <u>-</u> | <u>237,332</u> |
| Capital assets being depreciated | | | | |
| Buildings and infrastructure | 12,389,805 | 100,679 | - | 12,490,484 |
| Machines and vehicles | 1,313,573 | 66,632 | 144,299 | 1,235,906 |
| Total capital assets being depreciated | <u>13,703,378</u> | <u>167,311</u> | <u>144,299</u> | <u>13,726,390</u> |
| Less accumulated depreciation: | | | | |
| Buildings and infrastructure | 3,807,132 | 579,915 | - | 4,387,047 |
| Machines and vehicles | 709,285 | 100,970 | 106,047 | 704,208 |
| Total accumulated depreciation | <u>4,516,417</u> | <u>680,885</u> | <u>106,047</u> | <u>5,091,255</u> |
| Total capital assets being depreciated, net | <u>9,186,961</u> | <u>(513,574)</u> | <u>38,252</u> | <u>8,635,135</u> |
| Governmental capital assets, net | <u>\$9,424,293</u> | <u>\$(513,574)</u> | <u>\$ 38,252</u> | <u>\$ 8,872,467</u> |

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

| | <u>Balance 1/1/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/2017</u> |
|---|-----------------------------|---------------------------|--------------------|-------------------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 52,420 | \$ - | \$ - | \$ 52,420 |
| Construction in progress | 4,865 | 60,190 | - | 65,055 |
| Total capital assets not being depreciated | <u>57,285</u> | <u>60,190</u> | <u>-</u> | <u>117,475</u> |
| Capital assets being depreciated | | | | |
| Buildings and infrastructure | 4,494,646 | | | 4,494,646 |
| Machines and vehicles | 421,479 | - | - | 421,479 |
| Total capital assets being depreciated | <u>4,916,125</u> | <u>-</u> | <u>-</u> | <u>4,916,125</u> |
| Less accumulated depreciation: | | | | |
| Buildings and infrastructure | 1,505,327 | 197,964 | - | 1,703,291 |
| Machines and vehicles | 252,489 | 40,010 | - | 292,499 |
| Total accumulated depreciation | <u>1,757,816</u> | <u>237,973</u> | <u>-</u> | <u>1,995,789</u> |
| Total capital assets being depreciated, net | <u>3,158,309</u> | <u>(237,973)</u> | <u>-</u> | <u>2,920,336</u> |
| Business-type activities capital assets, net | <u><u>\$3,215,594</u></u> | <u><u>\$(177,783)</u></u> | <u><u>\$ -</u></u> | <u><u>\$3,037,811</u></u> |

| | <u>Balance 1/1/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/2017</u> |
|---|-----------------------------|--------------------------|--------------------|-------------------------------|
| Component Unit, JDA | | | | |
| Capital assets being depreciated | | | | |
| Buildings and infrastructure | \$804,610 | \$ - | \$ - | \$ 804,610 |
| Equipment and fixtures | 3,996 | - | - | 3,996 |
| Total capital assets being depreciated | <u>808,606</u> | <u>-</u> | <u>-</u> | <u>808,606</u> |
| Less accumulated depreciation: | | | | |
| Buildings and infrastructure | 119,262 | 20,115 | - | 139,377 |
| Equipment and fixtures | 2,345 | 634 | - | 2,979 |
| Total accumulated depreciation | <u>121,607</u> | <u>20,749</u> | <u>-</u> | <u>142,356</u> |
| Total capital assets being depreciated, net | <u>686,999</u> | <u>(20,749)</u> | <u>-</u> | <u>666,250</u> |
| Component unit capital assets, net | <u><u>\$686,999</u></u> | <u><u>\$(20,749)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 666,250</u></u> |

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

Depreciation expense was charged to functions as follows in the Statement of Activities:

| | |
|---|------------------|
| Governmental Activities: | |
| General government | \$ 70,052 |
| Public safety | 41,599 |
| Public works | <u>569,234</u> |
| Total depreciation expense for governmental activities | <u>\$680,885</u> |
| Business-type Activities: | |
| Water operating | \$226,925 |
| Sewer operating | <u>11,048</u> |
| Total depreciation expense for business-type activities | <u>\$237,973</u> |

NOTE 7 NOTES AND BONDS PAYABLE

The following is a summary of long-term debt of the City of Rugby for the year ended December 31, 2017:

| <u>Governmental activities:</u> | <u>Year-End Balance</u> |
|---|-----------------------------|
| Refunding Improvement Bonds of 2017 (Build America Bonds) The bonds carry interest rates of 3.0% and are scheduled to be fully repaid on May 1, 2024. | \$2,005,000 |
| Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033. | 1,272,569 |
| Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033. | 1,092,431 |
| General Obligation Fire Station Bonds of 2015. The bonds carry interest rates of 1.40% - 3.00% and are scheduled to be fully repaid on May 1, 2025. | 330,000 |
| Police Vehicle Note. The note carries an interest rate of 3.00% and is scheduled to be fully repaid on April 1, 2018. | <u>10,095</u> |
| Total Notes and Bonds Payable- Governmental Funds Before Bond Discounts/Premiums | 4,710,095 |
| Less: Bond discount, net of amortization of \$800 | 8,535 |
| Add: Bond premium | <u>59,492</u> |
| Total Notes and Bonds Payable- Governmental Funds | <u>\$4,761,052</u> |

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

| <u>Business-type activities:</u> | Year-End Balance |
|---|---------------------|
| Water Revenue Bonds of 2015. The bonds carry interest rates of 2.00% - 4.00% and are scheduled to be fully retired on June 1, 2025. | \$ 385,000 |
| Total Notes and Bonds Payable - Proprietary Funds Before Bond Premiums | 385,000 |
| Add: Bond premium, net of amortization of \$4,824 | 36,515 |
| Total Notes and Bonds Payable - Enterprise Funds | \$ 421,515 |
| | |
| <u>Component unit:</u> | Year-End Balance |
| Bremer Bank note. The note carries an interest rate of 7.0% and is scheduled to be fully repaid on January 1, 2026. | \$ 228,978 |
| Rural Development Finance Corporation note. The note carries an interest rate of 1.0% and is scheduled to be fully repaid on November 23, 2021. | 20,599 |
| Souris Basin IRP note. The note carries an interest rate of 4.0% and is scheduled to be fully repaid on March 1, 2026. | 93,777 |
| Total Notes Payable - Component Unit | \$ 343,354 |

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

The annual payment requirements on the above debt as of December 31, 2017 are as follows:

| Year Ending December 31 | Governmental Activities | |
|----------------------------|-------------------------|-------------------|
| | Bonds and Notes | |
| | Principal | Interest |
| 2018 | \$ 420,095 | \$ 110,736 |
| 2019 | 435,000 | 100,823 |
| 2020 | 450,000 | 90,322 |
| 2021 | 455,000 | 79,523 |
| 2022 | 470,000 | 68,302 |
| 2023-2027 | 1,480,000 | 195,015 |
| 2028-2032 | 820,000 | 89,068 |
| 2033-2037 | 180,000 | 2,925 |
| | <u>\$ 4,710,095</u> | <u>\$ 736,714</u> |

| Year Ending December 31 | Business-type Activities | |
|----------------------------|--------------------------|------------------|
| | Bonds | |
| | Principal | Interest |
| 2018 | \$ 40,000 | \$ 14,800 |
| 2019 | 45,000 | 13,100 |
| 2020 | 45,000 | 11,525 |
| 2021 | 45,000 | 10,175 |
| 2022 | 50,000 | 8,500 |
| 2023-2027 | 160,000 | 12,000 |
| | <u>\$ 385,000</u> | <u>\$ 70,100</u> |

| Year Ending December 31 | Component Unit | |
|----------------------------|-------------------|------------------|
| | Notes | |
| | Principal | Interest |
| 2018 | \$ 36,766 | \$ 19,487 |
| 2019 | 38,825 | 17,428 |
| 2020 | 40,981 | 15,272 |
| 2021 | 43,354 | 12,899 |
| 2022 | 40,568 | 10,408 |
| 2023-2027 | 142,860 | 14,944 |
| | <u>\$ 343,354</u> | <u>\$ 90,438</u> |

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

The following is a summary of the activity in long-term liabilities for the year ended December 31, 2017:

| | <u>Balance</u> <u>1/1/2017</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>12/31/2017</u> | <u>Due Within</u> <u>One Year</u> |
|---|-----------------------------------|---------------------|-----------------------|-------------------------------------|--------------------------------------|
| <i>Governmental activities:</i> | | | | | |
| Refunding Improvement Bonds of 2009 | \$ 2,825,000 | \$ - | \$ (2,825,000) | \$ - | \$ - |
| Refunding Improvement Bonds of 2013 | 1,339,829 | - | (67,260) | 1,272,569 | 67,260 |
| Refunding Improvement Bonds of 2013 | 1,150,171 | - | (57,740) | 1,092,431 | 57,740 |
| Refunding Improvement Bonds of 2017 | - | 2,005,000 | - | 2,005,000 | 250,000 |
| General Obligation Fire Station Bonds of 2015 | 365,000 | - | (35,000) | 330,000 | 35,000 |
| Vehicle Note | 20,010 | - | (9,915) | 10,095 | 10,095 |
| | <u>\$ 5,700,010</u> | <u>\$ 2,005,000</u> | <u>\$ (2,994,915)</u> | <u>\$ 4,710,095</u> | <u>\$ 420,095</u> |
| <i>Business-type activities:</i> | | | | | |
| Water Revenue Bonds 2015 | \$ 425,000 | \$ - | \$ (40,000) | \$ 385,000 | \$ 40,000 |
| | <u>\$ 425,000</u> | <u>\$ -</u> | <u>\$ (40,000)</u> | <u>\$ 385,000</u> | <u>\$ 40,000</u> |
| <i>Component unit:</i> | | | | | |
| Bremer Bank Note | \$ 249,827 | \$ - | \$ (20,849) | \$ 228,978 | \$ 21,998 |
| Rural Development Finance Corporation Note | 25,622 | - | (5,023) | 20,599 | 5,073 |
| Souris Basin IRP Note | 102,990 | - | (9,213) | 93,777 | 9,695 |
| | <u>\$ 378,439</u> | <u>\$ -</u> | <u>\$ (35,085)</u> | <u>\$ 343,354</u> | <u>\$ 36,766</u> |

During 2010, the Job Development Authority made an interest prepayment of \$44,160 on the Bremer bank note. Interest recognized in 2017 on the prepayment was \$3,630 and the remaining balance as of December 31, 2017 was \$13,614.

During 2017, principal of \$820,000 was repaid on the Refunding Improvement Bonds of 2009 through general funds and special assessments. The remaining principal of \$2,005,000 was refunded through the Refunding Improvement Bonds of 2017. This refunding resulted in a present value savings of approximately \$72,749 to the City.

NOTE 8 CONDUIT DEBT OBLIGATIONS

The City occasionally sponsors debt for businesses or citizens to provide financial assistance for the acquisition and construction of facilities deemed to be in the public interest.

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

Special Facility Revenue Bonds

For the reconstruction of Heart of America Medical Center, the City utilized funds provided by the proceeds from special revenue bond issuance. This bond is not a general obligation of the City. The bond is to be repaid by a party other than the City. Accordingly, the bond is not reported as a liability in the accompanying financial statements. The following is a description of the bond issuance:

Health Care Facility Revenue Bonds (Good Samaritan Hospital Association Project), Series 2013 – The \$1,215,000 Series 2013 Bonds, issued September 1, 2013, are special, limited obligations of the City, payable solely from certain project payments to be made by the Heart of America Medical Center. As of December 31, 2017, the amount outstanding was approximately \$764,031.

NOTE 9 FUND BALANCE

Classifications

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

| | District 2009-1 Debt Service | Infrastructure Maintenance Fund | Other Governmental Funds | Total Governmental Funds |
|-----------------------------|---------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| Restricted for: | | | | |
| Capital Projects | \$ - | \$ 806,347 | \$ 110,457 | \$ 916,804 |
| Debt Service | 43,175 | - | 419,200 | 462,375 |
| Snow Removal | - | - | 11,071 | 11,071 |
| Flood Control 1-1985 | - | - | 98,684 | 98,684 |
| Economic Developer Director | - | - | 8,536 | 8,536 |
| Building Reserve | - | - | 100,011 | 100,011 |
| Highways and Streets | - | - | 4,145 | 4,145 |
| | <u>\$ 43,175</u> | <u>\$ 806,347</u> | <u>\$ 752,104</u> | <u>\$ 1,601,626</u> |

Minimum Fund Balance Policy

The City intends to build the minimum fund balance in the General Fund to an amount of \$600,000. The City intends to maintain a year-end balance that is 20 to 25 percent higher than the previous year's balance until the amount of \$600,000 is reached. The minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue and to maintain a budget stabilization commitment.

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

NOTE 10 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2017 were as follows:

| | General Fund | District 2017-1 Debt Service | Infrastructure Maintenance Fund | Other Governmental Funds | Water Operating Fund | Other Enterprise Funds | Total |
|---------------|------------------|---------------------------------|---------------------------------------|--------------------------------|----------------------------|------------------------------|--------------|
| Transfers in | \$ 97,883 | \$ 241,668 | \$ - | \$ 252,302 | \$ 50,717 | \$ 459,000 | \$ 1,101,570 |
| Transfers out | (72,300) | - | (484,416) | (35,137) | (409,000) | (100,717) | (1,101,570) |
| | <u>\$ 25,583</u> | <u>\$ 241,668</u> | <u>\$ (484,416)</u> | <u>\$ 217,165</u> | <u>\$ (358,283)</u> | <u>\$ 358,283</u> | <u>\$ -</u> |

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires or allows to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11 RISK MANAGEMENT

The City of Rugby is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980's, the City was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. All members joined to help capitalize the NDRIF. The City pays an annual premium to NDRIF for its general insurance, personal injury insurance, auto insurance, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence. In the past three years, no settled claims have exceeded insurance coverage.

The City continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident insurance.

NOTE 12 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially all employees of the City are required by state law to belong to pension plans administered by the North Dakota Public Employees' Retirement System (NDPERS), which is administered on a statewide basis.

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Plan members are required to contribute 6.00% of their annual covered salary. The City is required to contribute 9.26% of the employee's salary which consists of 7.12% for employee retirement, 1.14% for the retiree health benefits fund, and 1.00% of the member assessments which the City has agreed to pay in lieu of a salary increase. For the year ended December 31, 2017, the City's pension expense was \$59,157.

The City is reporting on the modified cash basis, thus is not required to report the net pension liability, deferred inflows of resources and outflows of resources as required by GASB

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

Statement No. 68, *Accounting and Financial Reporting for Pensions*. As of June 30, 2017, the measurement date, the City's proportionate share of the overall NDPERS allocation was 0.056792% and its portion of the net pension liability was \$912,834.

NOTE 13 NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several new statements, some of which have not been implemented by the City.

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

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

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

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

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

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

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

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

NOTE 14 COMMITMENTS

The City has a commitment associated with its NAWS contract with the North Dakota State Water Commission. Under the terms of the contract, the City is required to remit (on a quarterly basis) fifteen cents per each thousand gallons of water to the Commission's OM&R fund. The current contract expires February 23, 2038. As of December 31, 2017, the City remitted a total of \$140,347 to the Commission.

In 2012, the City entered into an agreement with HACTC Housing to pay \$65/day per prisoner sentenced from the City of Rugby. The City makes monthly payments in proportion to the services rendered. Since the agreement was entered into, the City has paid \$42,219 for prisoner housing to HACTC.

In 2012 the City entered into an agreement with Interstate Engineering to prepare a comprehensive land use plan. The payments to Interstate Engineering for this project are not to exceed \$85,000. As of 12/31/17, \$75,548 has been paid.

In 2012, the City agreed to contribute \$6,000 annually to Pierce County to help pay for a loan used to install an elevator at the Heart of America library. As of December 31, 2017, the City has made payments totaling \$18,000.

In 2017, The City agreed to pay Dakota Design Floors, Inc. \$82,000 to install new flooring in the City Armory gym. As of 12/31/17, no payments have been made.

In 2017, The City entered into an agreement to pay PKG Contracting \$343,000 to construct new Water Treatment Plant Improvements. As of 12/31/17, no work was completed thus no payments have been made.

In 2017, The City agreed to pay Samson Electric \$189,251 to complete the electrical component of the Water treatment plant improvement. As of 12/31/17, no work was completed at year end thus no payments have been made.

In 2017, The City agreed to pay Suez Treatment Solutions \$52,700 for the purchase of material for the Water treatment plant. As of 12/31/17, no items were delivered prior to year-end thus no payments have been made.

NOTE 15 CONTINGENCIES

The City receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The City's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position.

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

NOTE 16 JOINT VENTURES

Rugby Volunteer Fire Department

Under the authorization of state statutes, the City joined the Rugby Rural Fire Protection District to establish and operate the Rugby Volunteer Fire Department. The operating and capital expenses are funded by contributions from each government.

Complete financial information can be obtained from Will Griffin, Fire Chief, PO Box 202, Rugby, ND 58368.

Heart of America Library

Under the authorization of state statutes, the City joined Pierce County to operate the Heart of America Library. The public library will be governed by a Joint Library Board, which is comprised of four members appointed by the City, four members appointed by Pierce County, and one additional member from each governing board. The operating and capital expenses are funded by a 3.65 mill contribution from Pierce County and a 4 mill contribution from the City. Other contributions include amounts from the state library fund, donations, and used book sales. The City shall cover all additional expenses not covered by these shares of funds.

Complete financial information can be obtained from Kimberly Morgan, Library Director, 201 3rd Street SW, Rugby, ND 58368

NOTE 17 SUBSEQUENT EVENTS

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through December 20, 2018, which is the date these financial statements were available to be issued.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the City Council
City of Rugby
Rugby, 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 modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Rugby, North Dakota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Rugby's basic financial statements and have issued our report thereon dated December 20, 2018.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

City's Responses to Findings

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

Purpose of this Report

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



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

December 20, 2018

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Findings Relating to Financial Statements

2017-001 *Financial Statement Preparation and Journal Entries*

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with the modified cash basis of accounting.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by the modified cash basis of accounting for external reporting. The City is aware of this deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

Cause

The City does not have the internal expertise needed to handle all aspects of external financial reporting.

Effect

The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

Recommendation

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of responsible officials and planned corrective actions

Due to the small size of the City, it is not cost effective for the City to properly address this control deficiency.

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

2017-002 *Segregation of Duties*

Criteria

Generally, a system of internal control has the proper separation of duties between the authorization, custody, record keeping and reconciliation functions.

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The above functions should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the Council.

Views of responsible officials and planned corrective actions

The Council will review its current monitoring functions and determine if any additional monitoring procedures are warranted. However, due to the small size of the City, it is not cost effective for the City to hire additional accounting personnel to address this deficiency.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

December 20, 2018

To the City Council
City of Rugby
Rugby, ND 58368

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby for the year ended December 31, 2017, and have issued our report thereon dated December 20, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 3, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Rugby are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the City of Rugby during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No such estimates were identified.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered difficulties receiving auditable information for the City's Component Unit, Job Development Authority, in a timely manner. This is evidenced by the date of our independent auditor's report.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule also shows material misstatements detected as a result of audit procedures and corrected by management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Restriction on Use

This information is intended solely for the use of the City Council and management of the City of Rugby and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



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

Client: **28782 - City of Rugby**
 Engagement: **AUD - City of Rugby**
 Period Ending: **12/31/2017**
 Trial Balance: **TB**
 Workpaper: **2201.00 - Adjusting Journal Entries Report**

| Account | Description | W/P Ref | Debit | Credit |
|---|--|----------------|---------------------|---------------------|
| Adjusting Journal Entries JE # 1 | | PY | | |
| To set up prior year proprietary fund fixed assets and debt | | | | |
| B5010.150090 | CONSTRUCTION IN PROGRESS | | | |
| B5010.150100 | LAND | | | |
| B5010.150110 | BUILDINGS AND INFRASTRUCTURE | | | |
| B5010.150120 | MACHINERY AND VEHICLES | | | |
| B5010.150130 | ACCUMULATED DEPR - BUILDINGS & INFRASTRUCTURE | | | |
| B5010.150140 | ACCUMULATED DEPR - MACHINERY & VEHICLES | | | |
| B5010.202001 | Bonds Payable - Water Rev. | | | |
| B5010.272000 | INVESTED IN CAPITAL ASSETS - NET OF RELATED DEBT | | | |
| B5020.150120 | Machinery & Vehicles | | | |
| B5020.150140 | Accumulated Depreciation- Machinery | | | |
| B5020.272000 | INVESTED IN CAPITAL ASSETS - NET OF RELATED DEBT | | | |
| Total | | | 0.00 | 0.00 |
| Adjusting Journal Entries JE # 2 | | 5310.00 | | |
| To adjust miscoded debt payment | | | | |
| 1000.421000.710 | DEBT SERVICE - PRINCIPAL | | 9,912.00 | |
| 1000.421000.720 | DEBT SERVICE - INTEREST | | 588.00 | |
| 3560.466700.720 | DEBT SERVICE-INTEREST | | 10,862.54 | |
| 1000.421000.660 | CAPITAL OUTLAY - VEHICLES | | | 10,500.00 |
| 3560.466700.710 | DEBT SERVICE-PRINCIPAL | | | 10,862.54 |
| Total | | | 21,362.54 | 21,362.54 |
| Adjusting Journal Entries JE # 3 | | | | |
| To record PY JE not recorded and record CY amortization of bond premium on water revenue bond | | | | |
| 5010.150150 | Bond/Discount Cost | | 4,868.60 | |
| 5010.150150 | Bond/Discount Cost | | 4,868.60 | |
| 5010.271000 | FUND BALANCE | | | 4,868.60 |
| 5010.434010.720 | DEBT SERVICE-INTEREST | | | 4,868.60 |
| Total | | | 9,737.20 | 9,737.20 |
| Adjusting Journal Entries JE # 4 | | | | |
| To record series 2009 payoff properly | | | | |
| 3540.463300.710 | DEBT SERVICE-PRINCIPAL | | 2,515,000.00 | |
| 3540.202001 | Bonds Payable - Water Revenue | | | 2,515,000.00 |
| Total | | | 2,515,000.00 | 2,515,000.00 |
| Adjusting Journal Entries JE # 5 | | | | |
| To recode transfers made during the year between fund balance and transfers | | | | |
| 1000.271000 | FUND BALANCE | | 295.95 | |
| 1000.271000 | FUND BALANCE | | 14,435.00 | |
| 1000.271000 | FUND BALANCE | | 83,152.28 | |
| 1000.521000 | TRANSFERS OUT | | 5,000.00 | |
| 1000.521000 | TRANSFERS OUT | | 10,000.00 | |
| 1000.521000 | TRANSFERS OUT | | 13,400.00 | |
| 1000.521000 | TRANSFERS OUT | | 43,900.00 | |
| 1010.271000 | FUND BALANCE | | 5,000.00 | |
| 1010.521000 | Transfers Out | | 14,435.00 | |
| 1020.271000 | FUND BALANCE | | 10,000.00 | |
| 1020.271000 | FUND BALANCE | | 10,000.00 | |
| 1020.271000 | FUND BALANCE | | 20,000.00 | |
| 2010.271000 | FUND BALANCE | | 10,000.00 | |
| 2010.271000 | FUND BALANCE | | 55,445.00 | |
| 2010.271000 | FUND BALANCE | | 60,000.00 | |
| 2010.521000 | Transfers Out | | 10,000.00 | |
| 2060.271000 | FUND BALANCE | | 13,400.00 | |
| 2140.521000 | Transfers Out | | 10,000.00 | |
| 3530.521000 | TRANSFERS OUT | | 295.95 | |
| 3540.271000 | FUND BALANCE | | 241,668.00 | |
| 3560.271000 | FUND BALANCE | | 24,151.00 | |
| 3580.383000 | TRANSFERS-IN | | 9,265.77 | |
| 5010.521000 | TRANSFERS OUT | | 87,000.00 | |
| 5010.521000 | TRANSFERS OUT | | 322,000.00 | |
| 5011.271000 | FUND BALANCE | | 87,000.00 | |
| 5011.271000 | FUND BALANCE | | 322,000.00 | |

Client: **28782 - City of Rugby**
 Engagement: **AUD - City of Rugby**
 Period Ending: **12/31/2017**
 Trial Balance: **TB**
 Workpaper: **2201.00 - Adjusting Journal Entries Report**

| Account | Description | W/P Ref | Debit | Credit |
|--|-------------------------------------|----------------|---------------------|---------------------|
| 5011.521000 | TRANSFERS OUT | | 244.95 | |
| 5011.521000 | TRANSFERS OUT | | 50,471.60 | |
| 5012.271000 | FUND BALANCE | | 244.95 | |
| 5012.271000 | FUND BALANCE | | 50,471.60 | |
| 5020.521000 | TRANSFERS OUT | | 50,000.00 | |
| 5021.271000 | FUND BALANCE | | 50,000.00 | |
| 5060.521000 | TRANSFERS OUT | | 20,000.00 | |
| 5060.521000 | TRANSFERS OUT | | 24,151.00 | |
| 5060.521000 | TRANSFERS OUT | | 55,445.00 | |
| 5060.521000 | TRANSFERS OUT | | 60,000.00 | |
| 5060.521000 | TRANSFERS OUT | | 83,152.28 | |
| 5060.521000 | TRANSFERS OUT | | 241,668.00 | |
| 1000.271000 | FUND BALANCE | | | 5,000.00 |
| 1000.271000 | FUND BALANCE | | | 10,000.00 |
| 1000.271000 | FUND BALANCE | | | 13,400.00 |
| 1000.311000 | GENERAL PROPERTY TAXES | | | 43,900.00 |
| 1000.383000 | TRANSFERS-IN | | | 295.95 |
| 1000.383000 | TRANSFERS-IN | | | 14,435.00 |
| 1000.383000 | TRANSFERS-IN | | | 83,152.28 |
| 1010.271000 | FUND BALANCE | | | 14,435.00 |
| 1010.383000 | TRANSFERS IN | | | 5,000.00 |
| 1020.383000 | TRANSFERS IN | | | 10,000.00 |
| 1020.383000 | TRANSFERS IN | | | 10,000.00 |
| 1020.383000 | TRANSFERS IN | | | 20,000.00 |
| 2010.271000 | FUND BALANCE | | | 10,000.00 |
| 2010.383000 | TRANSFERS-IN | | | 10,000.00 |
| 2010.383000 | TRANSFERS-IN | | | 55,445.00 |
| 2010.383000 | TRANSFERS-IN | | | 60,000.00 |
| 2060.383000 | TRANSFERS-IN | | | 13,400.00 |
| 2140.271000 | FUND BALANCE | | | 10,000.00 |
| 3530.271000 | FUND BALANCE | | | 295.95 |
| 3540.383000 | TRANSFERS IN | | | 241,668.00 |
| 3560.271000 | FUND BALANCE | | | |
| 3560.383000 | Transfer In | | | 24,151.00 |
| 3560.383000 | Transfer In | | | |
| 3580.363000 | SPECIAL ASSESSMENTS | | | 9,265.77 |
| 5010.271000 | FUND BALANCE | | | 87,000.00 |
| 5010.271000 | FUND BALANCE | | | 322,000.00 |
| 5011.271000 | FUND BALANCE | | | 244.95 |
| 5011.271000 | FUND BALANCE | | | 50,471.60 |
| 5011.383000 | TRANSFERS IN | | | 87,000.00 |
| 5011.383000 | TRANSFERS IN | | | 322,000.00 |
| 5012.383000 | TRANSFERS-IN | | | 244.95 |
| 5012.383000 | TRANSFERS-IN | | | 50,471.60 |
| 5020.271000 | FUND BALANCE | | | 50,000.00 |
| 5021.383000 | TRANSFERS IN | | | 50,000.00 |
| 5060.271000 | FUND BALANCE | | | 20,000.00 |
| 5060.271000 | FUND BALANCE | | | 24,151.00 |
| 5060.271000 | FUND BALANCE | | | 55,445.00 |
| 5060.271000 | FUND BALANCE | | | 60,000.00 |
| 5060.271000 | FUND BALANCE | | | 83,152.28 |
| 5060.271000 | FUND BALANCE | | | 241,668.00 |
| 5060.383000 | TRANSFERS-IN | | | |
| Total | | | 2,167,693.33 | 2,167,693.33 |
| Adjusting Journal Entries JE # 6 | | 5310.00 | | |
| To record principal payments on proprietary fund debt and set up due within 1 year | | | | |
| 5010.202001 | Bonds Payable - Water Revenue | | 40,000.00 | |
| 5010.202001 | Bonds Payable - Water Revenue | | 40,000.00 | |
| 5010.434010.710 | DEBT SERVICE-PRINCIPAL | | | 40,000.00 |
| B5010.202100 | BONDS PAYABLE - DUE WITHIN ONE YEAR | | | 40,000.00 |
| Total | | | 80,000.00 | 80,000.00 |
| Adjusting Journal Entries JE # 7 | | 4600.01 | | |
| To record Prior period AJE's 8, 10, 14 | | | | |
| 5010.150110 | Buildings and Infrastructure | | 37,522.70 | |
| 5010.150120 | Machinery and Vehicles | | 1,703.99 | |
| 5010.271000 | FUND BALANCE | | 225,226.94 | |
| 5020.150120 | Machinery and Vehicles | | 16,200.00 | |

Client: **28782 - City of Rugby**
 Engagement: **AUD - City of Rugby**
 Period Ending: **12/31/2017**
 Trial Balance: **TB**
 Workpaper: **2201.00 - Adjusting Journal Entries Report**

| Account | Description | W/P Ref | Debit | Credit |
|--------------|--|---------|-------------------|-------------------|
| 5020.271000 | FUND BALANCE | | 12,706.91 | |
| B5010.150090 | CONSTRUCTION IN PROGRESS | | 4,865.00 | |
| 5010.150110 | Buildings and Infrastructure | | | 4,865.00 |
| 5010.150130 | Accumulated Depreciation - Buildings and Infrastru | | | 196,638.08 |
| 5010.150140 | Accumulated Depreciation - Machinery and Vehicles | | | 28,588.86 |
| 5010.271000 | FUND BALANCE | | | 39,226.69 |
| 5020.150140 | Accumulated Depreciation - Machinery and Vehicles | | | 12,706.91 |
| 5020.271000 | FUND BALANCE | | | 16,200.00 |
| Total | | | 298,225.54 | 298,225.54 |

Adjusting Journal Entries JE # 8

To record PY entries not made

| | | | | |
|--------------|-------------------------|--|-------------------|-------------------|
| 3550.101000 | Merchants Bank Checking | | 534.43 | |
| 3560.271000 | FUND BALANCE | | 534.43 | |
| 5010.202100 | ACCOUNTS PAYABLE | | 57,934.90 | |
| 5010.214100 | REFUNDS PAYABLE | | 1,225.79 | |
| 5010.271000 | FUND BALANCE | | 66,378.70 | |
| 5020.214100 | REFUNDS PAYABLE | | 129.59 | |
| 5020.271000 | FUND BALANCE | | 22,487.55 | |
| 5030.214100 | REFUNDS PAYABLE | | 104.50 | |
| 5030.271000 | FUND BALANCE | | 29,170.11 | |
| 5060.214100 | REFUNDS PAYABLE | | 78.75 | |
| 5060.271000 | FUND BALANCE | | 8,094.78 | |
| 5200.214100 | REFUNDS PAYABLE | | 5.25 | |
| 5200.271000 | FUND BALANCE | | 5,965.12 | |
| 3550.271000 | FUND BALANCE | | | 534.43 |
| 3560.101000 | Merchants Bank Checking | | | 534.43 |
| 5010.122000 | ACCOUNTS RECEIVABLE | | | 66,378.70 |
| 5010.271000 | FUND BALANCE | | | 1,225.79 |
| 5010.271000 | FUND BALANCE | | | 57,934.90 |
| 5020.122000 | ACCOUNTS RECEIVABLE | | | 22,487.55 |
| 5020.271000 | FUND BALANCE | | | 129.59 |
| 5030.122000 | ACCOUNTS RECEIVABLE | | | 29,170.11 |
| 5030.271000 | FUND BALANCE | | | 104.50 |
| 5060.122000 | ACCOUNTS RECEIVABLE | | | 8,094.78 |
| 5060.271000 | FUND BALANCE | | | 78.75 |
| 5200.122000 | ACCOUNTS RECEIVABLE | | | 5,970.37 |
| Total | | | 192,643.90 | 192,643.90 |

Adjusting Journal Entries JE # 9

correct 75% of infrastructure maint. charges moved to other funds

PY

| | | | | |
|--------------|----------------------------|--|-------------------|-------------------|
| 5011.271000 | FUND BALANCE | | 36,966.52 | |
| 5021.271000 | FUND BALANCE | | 18,483.25 | |
| 5060.347600 | INFRASTRUCTURE MAINTENANCE | | 55,449.71 | |
| 5011.347600 | INFRASTRUCTURE MAINTENANCE | | | 36,966.52 |
| 5021.347600 | INFRASTRUCTURE MAINTENANCE | | | 18,483.25 |
| 5060.271000 | FUND BALANCE | | | 55,449.71 |
| Total | | | 110,899.48 | 110,899.48 |

Adjusting Journal Entries JE # 10

correct for expenditures recoded between funds

| | | | | |
|--------------|-------------------------|--|-----------------|-----------------|
| 1000.101000 | Merchants Bank Checking | | 1,777.77 | |
| 2060.271000 | FUND BALANCE | | 1,777.77 | |
| 1000.271000 | FUND BALANCE | | | 1,777.77 |
| 2060.101000 | Merchants Bank Checking | | | 1,777.77 |
| Total | | | 3,555.54 | 3,555.54 |

Adjusting Journal Entries JE # 11

adjust beginning FB

PY

| | | | | |
|-----------------|--|--|--------------|--------------|
| 5010.434010.720 | DEBT SERVICE-INTEREST | | 44.10 | |
| 5010.202001 | Bonds Payable - Water Revenue | | | 0.71 |
| 5010.272000 | Invested in Capital Assets - Net of Related Debt | | | 43.39 |
| Total | | | 44.10 | 44.10 |

Adjusting Journal Entries JE # 12

Move WTP Admin Fees to Water Fund and Capitalize as CIP

4605.00

Client: **28782 - City of Rugby**
 Engagement: **AUD - City of Rugby**
 Period Ending: **12/31/2017**
 Trial Balance: **TB**
 Workpaper: **2201.00 - Adjusting Journal Entries Report**

| Account | Description | W/P Ref | Debit | Credit |
|---|--|-----------------------|-------------------|-------------------|
| 5010.464800.670 | CAPITAL OUTLAY - CONSTRUCTION IN PROGRESS | | 50,716.55 | |
| 5012.383000 | TRANSFERS-IN | | 50,716.55 | |
| B5010.150090 | CONSTRUCTION IN PROGRESS | | 60,189.67 | |
| 5010.383000 | TRANSFERS IN | | | 50,716.55 |
| 5010.434000.630 | CAPITAL OUTLAY - BUILDING IMPROVEMENTS | | | 3,750.00 |
| 5010.464800.670 | CAPITAL OUTLAY - CONSTRUCTION IN PROGRESS | | | 56,439.67 |
| 5012.464900.670 | CAPITAL OUTLAY - CONSTRUCTION IN PROGRESS | | | 50,716.55 |
| Total | | | 161,622.77 | 161,622.77 |
| Adjusting Journal Entries JE # 13 | | 4605.00 | | |
| Record CY depreciation for Business Type Activity | | | | |
| 5010.434000.100 | Depreciation - Water Operating | | 226,924.85 | |
| 5020.434000.100 | Depreciation - Sewer Operating | | 11,048.58 | |
| 5010.150130 | Accumulated Depreciation - Buildings and Infrastru | | | 197,964.56 |
| 5010.150140 | Accumulated Depreciation - Machinery and Vehicles | | | 28,960.29 |
| 5020.150140 | Accumulated Depreciation - Machinery and Vehicles | | | 11,048.58 |
| Total | | | 237,973.43 | 237,973.43 |
| Adjusting Journal Entries JE # 14 | | 4151.01 | | |
| To record loss on investments | | | | |
| 9999.460100 | Gain/ loss on Investment | | 135.00 | |
| 9999.102200 | CONAC Fund LLC Investment | | | 135.00 |
| Total | | | 135.00 | 135.00 |
| Adjusting Journal Entries JE # 16 | | 5311 / 5348.00 | | |
| adjust JDA beginning balances | | | | |
| 9999.105000 | Prepaid Interest | | 17,243.62 | |
| 9999.202210 | Souris Basin IRP Loan J. Clinic | | | 380.01 |
| 9999.202220 | Rugby JDA Land | | | 305.95 |
| 9999.271000 | Unrestricted Net Assets | | | 16,557.66 |
| Total | | | 17,243.62 | 17,243.62 |
| Adjusting Journal Entries JE # 17 | | 5348.00 | | |
| adjust prepaid interest | | | | |
| 9999.421010 | Johnson Clinic Interest Expense | | 3,629.91 | |
| 9999.105000 | Prepaid Interest | | | 3,629.91 |
| Total | | | 3,629.91 | 3,629.91 |
| Adjusting Journal Entries JE # 18 | | | | |
| Zero receivables and payable to conform to modified cash basis presentation | | | | |
| 5010.214100 | REFUNDS PAYABLE | | 161.50 | |
| 5010.347100 | WATER BILLING COLLECTIONS | | 15,981.92 | |
| 5010.349300 | Utility Billing Deferrals - Water | | 1,450.45 | |
| 5010.349306 | Utility Billing Deferrals - Miscellaneous | | 200.00 | |
| 5010.349307 | Utility Billing Deferrals - Penalties | | 473.41 | |
| 5020.344100 | SEWER CHARGES | | 1,044.94 | |
| 5020.349301 | Utility Billing Deferrals - Sewer | | 619.82 | |
| 5030.344200 | GARBAGE COLLECTION CHARGES | | 1,066.69 | |
| 5030.349302 | Utility Billing Deferrals - Garbage | | 970.07 | |
| 5030.349303 | Utility Billing Deferrals - Landfill Surcharge | | 30.50 | |
| 5060.347600 | INFRASTRUCTURE MAINTENANCE | | 190.86 | |
| 5060.349305 | Utility Billing Deferrals - Infrastructure | | 403.33 | |
| 5200.347500 | Storm Water/FLOOD CONTROL SURCHARGE | | 112.11 | |
| 5200.349304 | Utility Billing Deferrals - Stormwater | | 310.50 | |
| 5010.122000 | ACCOUNTS RECEIVABLE | | | 16,143.42 |
| 5010.122001 | Accounts Receivable Deferred | | | 2,123.86 |
| 5020.122000 | ACCOUNTS RECEIVABLE | | | 1,044.94 |
| 5020.122001 | Accounts Receivable Deferred | | | 619.82 |
| 5030.122000 | ACCOUNTS RECEIVABLE | | | 1,066.24 |
| 5030.122001 | Accounts Receivable Deferred | | | 1,000.57 |
| 5030.214100 | REFUNDS PAYABLE | | 0.45 | |
| 5060.122000 | ACCOUNTS RECEIVABLE | | | 190.86 |
| 5060.122001 | Accounts Receivable Deferred | | | 403.33 |
| 5200.122000 | ACCOUNTS RECEIVABLE | | | 112.11 |
| 5200.122001 | Accounts Receivable Deferred | | | 310.50 |
| Total | | | 23,016.10 | 23,016.10 |

Client: **28782 - City of Rugby**
 Engagement: **AUD - City of Rugby**
 Period Ending: **12/31/2017**
 Trial Balance: **TB**
 Workpaper: **2201.00 - Adjusting Journal Entries Report**

| Account | Description | W/P Ref | Debit | Credit |
|--|--|----------------|-------------------------|-------------------------|
| Adjusting Journal Entries JE # 19 | | 4151.03 | | |
| Adjust forgiveable loan balance - JDA | | | | |
| 9999.454000 | Community Development | | 3,000.00 | |
| 9999.122010 | Forgivable Loans:Rugby Broadcasters Loan | | | 3,000.00 |
| Total | | | <u><u>3,000.00</u></u> | <u><u>3,000.00</u></u> |
| Adjusting Journal Entries JE # 20 | | 4606.00 | | |
| Record JDA depreciation | | | | |
| 9999.456000 | Depreciation Expense | | 20,749.30 | |
| 9999.150130 | Accumulated Depreciation | | | 20,749.30 |
| Total | | | <u><u>20,749.30</u></u> | <u><u>20,749.30</u></u> |
| Adjusting Journal Entries JE # 21 | | | | |
| zero AP - JDA | | | | |
| 9999.201000 | Bremer Bank Credit Card | | 112.93 | |
| 9999.470000 | Reconciliation Discrepancies-1 | | | 112.93 |
| Total | | | <u><u>112.93</u></u> | <u><u>112.93</u></u> |