

**CITY OF GRAFTON
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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CITY OF GRAFTON, NORTH DAKOTA
OFFICIAL DIRECTORY
AS OF DECEMBER 31, 2018

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
David Fellman	Council Member – At Large	2022
Chris Lipsh	Council Member – At Large	2022
Mary Stark	Council Member – At Large	2022
Brian Sieben	Council Member - At Large	2022
Shane Mohn	Council Member – First Ward	2020
Greg Young	Council Member - Second Ward	2020
Phil Ray	Council Member - Third Ward	2020
Don Hutson	Council Member - Fourth Ward	2020

OFFICERS AND MAYOR

Chris Lipsh	President
Greg Young	Vice-President
Chris West	Mayor

INDEPENDENT AUDITOR'S REPORT

Mayor and Council Members of
the City Council
Grafton, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

As described in Note 11 to the financial statements, the City has retroactively restated the previous reported net position. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grafton, North Dakota's basic financial statements. The official directory and combining non major fund and component units financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund and component units financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019, on our consideration of the City of Grafton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Grafton, North Dakota'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 Grafton's internal control over financial reporting and compliance.



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

July 2, 2019

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

As management of the City of Grafton, we are pleased to offer readers of the City of Grafton's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider it in conjunction with the additional information presented in the basic financial statements and the notes to the financial statements.

Using This Annual Report:

This annual report presents the following three components of the financial statements:

1. The Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's major funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City of Grafton's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on the entire City's governmental and business-type assets, deferred inflows/outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information on how the City's net position changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave). Both the Statement of Net Position and the Statement of Activities present information as follows:

- Governmental activities – this includes most of the City's basic services, which are primarily supported by property taxes, interest income, user fees and intergovernmental revenues.
- Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.
- The governmental-wide financial statements begin on page 13.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Grafton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds – not the City as a whole. The City's funds can be divided into three categories – governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental fund statements provide a detailed short-term view of the government's operations and the basic services it provides. These funds are reported on the modified accrual basis of accounting which focuses on available spendable resources. This allows the reader to evaluate the City's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between the governmental funds and the government-wide financial statements.

The City of Grafton maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, and the following major funds: Grafton Community Development Sales Tax Fund and Flood Control Fund. Data from the other special revenue, debt service and capital project funds are combined into a single, aggregated presentation.

The City of Grafton adopts an annual budget for all funds. Budgeting comparison statements have been provided to demonstrate compliance for the general fund and the sales tax fund.

Proprietary Funds – The City of Grafton maintains two types of proprietary funds:

- *Enterprise funds* are used to report activities that charge for services they provide to outside customers. The City of Grafton uses enterprise funds to account for its electric, water, wastewater, sanitation and pest control operations.
- *Internal service funds* are used to report activities that provide supplies and services to other City programs and activities. The City of Grafton uses an internal service fund to account for its Maintenance Department activities. Because these services predominantly benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide statements, only in more detail.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Fiduciary Funds – The City of Grafton is also responsible for assets that are held on behalf of others. The City is responsible for ensuring the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in a separate Statement of Assets and Liabilities.

The fiduciary fund activities have been excluded from the City's other financial statements since the City cannot use these assets to finance its operations.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the City as a whole:

The City's net position for the years ended December 31, 2018 and 2017 is summarized below; see the statement of net position in the financial statements for more detail.

	Governmental Activities (Restated)		Business-Type Activities (Restated)	
	12/31/18	12/31/17	12/31/18	12/31/17
ASSETS				
Current assets	\$ 14,077,304	\$ 7,581,689	\$ 4,328,888	\$ 3,737,549
Capital assets				
Property, plant and equipment	13,614,859	15,674,774	35,521,577	35,003,479
Construction in progress	24,832,291	7,398,748	44,908	199,815
Less accumulated depreciation	(4,232,624)	(3,775,090)	(19,366,263)	(18,610,340)
Other non-current assets	2,021,968	2,392,580	253,001	233,185
TOTAL ASSETS	50,313,798	29,272,701	20,782,111	20,563,688
DEFERRED OUTFLOWS OF RESOURCES	713,945	788,576	346,280	316,768
LIABILITIES				
Current Liabilities	794,719	257,455	759,484	802,014
Long-term Liabilities				
Bonds and notes payable-Due within one year	690,575	372,188	203,000	201,757
Bonds and notes payable-Noncurrent portion	17,975,745	8,632,259	2,523,760	2,726,760
Net pension liability	1,794,432	1,671,077	828,771	723,312
Net OPEB Liability	78,623	-	36,312	-
TOTAL LIABILITIES	21,334,094	10,932,979	4,351,327	4,453,843
DEFERRED INFLOWS OF RESOURCES	87,392	81,662	56,905	35,345
NET POSITION				
Net Investment in Capital Assets	15,602,298	10,350,946	13,473,462	13,664,437
Restricted	10,692,761	5,070,753	344,340	325,630
Unrestricted	3,311,198	3,624,937	2,902,357	2,401,201
TOTAL NET POSITION	\$ 29,606,257	\$ 19,046,636	\$ 16,720,159	\$ 16,391,268

As noted earlier, net position may serve over time as a useful indicator of the City's financial position.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Governmental Activities:

The City of Grafton's governmental activities net position increased \$10,559,621 for the year ended December 31, 2018. Included in this increase is the reclassification of the Volunteer Fire department from a discretely presented component unit to a blended component unit and inclusion as a special revenue fund. Key elements and a detailed summary of this increase are shown below.

Business-type Activities:

Business-type activities increased the City of Grafton's net position by \$328,891. Comparisons of net position can be seen on page 7 of this report with a detailed change in the City's business-type activities by function shown below.

	Governmental Activities (Restated)		Business-Type Activities (Restated)	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
REVENUES				
Program Revenues:				
Charges for services	\$ 354,270	\$ 351,520	\$ 9,115,632	\$ 8,490,188
Capital grants and contributions	15,328,667	-	29,830	964,765
Total program revenues	<u>15,682,937</u>	<u>351,520</u>	<u>9,145,462</u>	<u>9,454,953</u>
General Revenues:				
Taxes	1,850,135	1,758,885	-	-
Special assessments	(20,951)	61,664	-	-
Intergovernmental	645,613	3,224,380	-	-
Other	636,039	363,681	74,664	190,556
Total general revenues	<u>3,110,836</u>	<u>5,408,610</u>	<u>74,664</u>	<u>190,556</u>
Total revenues	<u>18,793,773</u>	<u>5,760,130</u>	<u>9,220,126</u>	<u>9,645,509</u>
EXPENSES				
Governmental:				
General government	754,236	845,991	-	-
Public safety	1,572,386	996,804	-	-
Highways and streets	930,520	1,003,548	-	-
Health and welfare	61,071	57,697	-	-
Public works	4,507,152	-	-	-
Other	764,922	1,210,153	-	-
Interest	447,465	234,151	-	-
Business type activities operating expenses:				
Electric	-	-	5,758,232	5,524,050
Water	-	-	1,205,919	1,091,832
Wastewater	-	-	564,928	509,437
Sanitation	-	-	396,707	387,274
Pest control	-	-	63,485	67,661
Total expenses	<u>9,037,752</u>	<u>4,348,344</u>	<u>7,989,271</u>	<u>7,580,254</u>
Change in net position before transfers	9,756,021	1,411,786	1,230,855	2,065,255
Transfers in (out)	<u>872,250</u>	<u>822,250</u>	<u>(872,250)</u>	<u>(822,250)</u>
Change in net position	10,628,271	2,234,036	358,605	1,243,005
Net position beginning of year	19,046,636	16,812,600	16,391,268	15,148,263
GASB 75 Adjustment - See Note 11 Net	<u>(68,650)</u>	<u>-</u>	<u>(29,714)</u>	<u>-</u>
position end of year - Restated	<u>\$ 29,606,257</u>	<u>\$ 19,046,636</u>	<u>\$ 16,720,159</u>	<u>\$ 16,391,268</u>

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Analysis of the Government's Funds:

As noted earlier, the City of Grafton uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds:

The focus of the City of Grafton's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Grafton's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the fiscal year, the City of Grafton's governmental funds reported combined ending fund balances of \$12,794,753.

The General Fund is the chief operating fund of the City of Grafton. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$919,091 while the total fund balance was \$2,072,847. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total expenditures. Unassigned fund balance represents 44% of the total general fund balance and 42% of total general fund expenditures.

The following fund balances in the other major funds that comprise the total Governmental Funds are listed below:

Development Sales Tax	\$ 2,368,841
Flood Control	7,091,296
Other Governmental Funds	1,261,769

Development Sales Tax – This reserve has resulted from a combination of excess sales tax receipts and equity transfers. This surplus is largely dedicated to future commitments in existing development agreements.

Flood Control – This reserve is for future costs associated with the flood control project.

Other Governmental Funds – This fund balance is the total fund balance in the remaining non-major governmental funds.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Proprietary Funds

City of Grafton's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the City of Grafton's proprietary funds at the end of the year amounted to \$2,902,357. This balance consisted of \$1,196,567 in the Electric fund, \$1,038,590 in the Water fund, \$164,859 in the Wastewater fund, and \$287,694 and \$214,647 in the Sanitation and Pest Control funds, respectively.

Governmental Fund Budgetary Highlights

The General Fund expenditures were amended \$46,912 largely due to an insurance claim reimbursement and the cost to move clay from a levee, which was reimbursed by FEMA

Assigned funds were appropriations from previous budgets and reserved by the City Council to be spent at a later date. The amounts were transferred from the assigned fund balance and the 2018 budget was increased as expenditures were made.

The 2017 Definitive Warrant Fund and the new 2018 Refunding Bond budgets were amended to reflect the expense to make the debt service payments; consequently the Sales Tax Fund was also amended to account for the transfer to the new 2018 Refunding Bond.

Capital Assets and Debt Administration

Capital Assets

The City of Grafton's capital assets for its governmental and business-type activities as of December 31, 2018 amounted to \$50,414,748 (net of accumulated depreciation). The capital assets included land, buildings and improvements, transmission system, vehicles and equipment, infrastructure and work in progress. The total in the City of Grafton's investment in capital assets for the current fiscal year was an increase of \$14,916,094 in the governmental activities and a decrease of \$392,732 in the business-type activities. The significant additions in the governmental activities were costs related to the City's flood protection project and in the business type activities improvements to the utility distribution systems. See note 3 for details.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Debt

At year-end, the City had outstanding long-term debt of \$24,131,218, an increase of \$9,692,676 compared to last year. Additional information on the City of Grafton's debt can be found in Note 4 beginning on page 34 of this report.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of the assessed valuation of taxable property within the city. The current debt limitation is approximately \$4,060,000, which is significantly in excess of the City of Grafton's existing general obligation debt.

Below is the debt activity for the year ended December 31, 2018:

GOVERNMENTAL ACTIVITIES	Interest Rate	Restated Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
Refunding Improvement Bonds:								
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,095,000	\$ -	\$ (25,000)	\$ -	\$ 3,070,000	\$ 160,000	\$ 6,791
Bond Premium		36,360	-	-	(2,020)	34,340	-	-
\$405,000 of 2008B	3.15% - 3.7%	20,000	-	(20,000)	-	-	-	-
\$10,000,000 of 2018	3.50% - 4.0%	-	10,000,000	-	-	10,000,000	225,000	61,293
Bond Premium		-	121,619	-	-	121,619	-	-
Bond Discount		-	(136,600)	-	-	(136,600)	-	-
General Obligation Bonds 2012	.4%-1.4%	470,000	-	(90,000)	-	380,000	90,000	810
Sales Tax Revenue Bonds								
\$2,350,000 2008A	3.5% - 5.5%	1,930,000	-	(55,000)	-	1,875,000	60,000	16,517
Definitive Improvement 2017	1.50%	3,371,626	-	(103,757)	-	3,267,869	101,483	8,034
Compensated Absences		56,961	-	-	(2,869)	54,092	-	-
Other Debt:								
Due to Electric -General Fund Fire	0.00%	24,500	-	(24,500)	-	-	-	-
Net Pension Liability		1,671,077	-	-	123,355	1,794,432	-	-
Net OPEB Liability		77,601	-	-	1,022	78,623	-	-
		<u>\$ 10,753,125</u>	<u>\$ 9,985,019</u>	<u>\$ (318,257)</u>	<u>\$ 119,488</u>	<u>\$ 20,539,375</u>	<u>\$ 636,483</u>	<u>\$ 93,445</u>

BUSINESS-TYPE ACTIVITIES	Interest Rate	Restated Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
Water								
ND Public Finance Water Revenue Bonds	2.50%	\$ 85,000	\$ -	\$ (15,000)	\$ -	\$ 70,000	\$ 15,000	\$ 583
ND Public Finance	2.50%	417,000	-	(65,000)	-	352,000	67,000	2,933
ND Public Finance	2.00%	1,840,757	-	(90,757)	-	1,750,000	90,000	11,673
Net Pension Liability		288,780	-	-	26,279	315,059	-	-
Net OPEB Liability		13,410	-	-	394	13,804	-	-
		<u>\$ 2,644,947</u>	<u>\$ -</u>	<u>\$ (170,757)</u>	<u>\$ 26,673</u>	<u>\$ 2,500,863</u>	<u>\$ 172,000</u>	<u>\$ 15,189</u>
Wastewater								
ND Public Finance-Clean Water Loan	2.00%	\$ 495,760	\$ -	\$ (1,000)	\$ -	\$ 494,760	\$ 1,000	\$ 500
ND Public Finance-Sewer Revenue Bonds	2.50%	90,000	-	(30,000)	-	60,000	30,000	3,299
Net Pension Liability		125,657	-	-	14,920	140,577	-	-
Net OPEB Liability		5,835	-	-	324	6,159	-	-
		<u>\$ 717,252</u>	<u>\$ -</u>	<u>\$ (31,000)</u>	<u>\$ 15,244</u>	<u>\$ 701,496</u>	<u>\$ 31,000</u>	<u>\$ 3,799</u>
Electric								
Net Pension Liability		\$ 308,875	\$ -	\$ -	\$ 64,260	\$ 373,135	\$ -	\$ -
Net OPEB Liability		14,343	-	-	2,006	16,349	-	-
		<u>\$ 323,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,266</u>	<u>\$ 389,484</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Economic Factors and Next Year's Budgets and Rates

Construction of a permanent flood control project is scheduled to be substantially completed by the fall of 2019 at an estimated cost of \$48,000,000. The State of North Dakota has committed to 63% of the total project cost. All financing is in place for the 37% local share. The bonds are backed by special assessments; however sales tax funds have been designated to fund the debt for the Flood Risk Reduction project including a citizen vote to increase the sales tax rate by an additional ½% effective through March 31, 2040. The 2018 sales tax collections were 9.46% more than estimated/budgeted.

Electric rates were adjusted 2.67% in 2018 along with the customer base charges being increased to cover the increased cost of maintaining infrastructure. Water rates are affordable with a \$16.50 base fee and \$5.97 per 1,000 gallons of consumption. Rates are expected to remain unchanged for 2019 and 2020.

The value of a mill for the 2019 budget is \$7,341 and is anticipated to be approximately \$7,679 for 2020.

Contacting the City's Financial Management

This financial statement is designed to provide citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need further information, contact the City of Grafton Finance Department, Box 578, Grafton, ND 58237 or visit our website at www.graftongov.com.

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

	Primary Government			
	Governmental Activities	Business- Type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	\$ 9,182,256	\$ 1,645,551	\$ 10,827,807	\$ 72,126
Restricted cash and cash equivalents	-	91,339	91,339	-
Investments	2,402,502	1,100,660	3,503,162	50,000
Receivables:				
Taxes	45,394	-	45,394	1,739
Accounts (net of uncollectibles)	1,406	1,087,793	1,089,199	-
Other	1,703,200	31,208	1,734,408	80,247
Special assessments	572,761	-	572,761	-
Interest	9,867	1,686	11,553	-
Due from other governments	77,804	-	77,804	2,721
Prepaid expense	11,316	16,658	27,974	838
Inventory	70,798	353,994	424,792	-
Capital Assets-not being depreciated				
Land	-	964,472	964,472	-
Construction in progress	24,832,291	44,908	24,877,199	-
Capital Assets				
Property, plant and equipment	13,614,859	34,557,105	48,171,964	2,913,685
Less accumulated depreciation	(4,232,624)	(19,366,263)	(23,598,887)	(592,669)
Other Assets				
Restricted cash and cash equivalents	-	253,001	253,001	-
Notes receivable-non current	146,968	-	146,968	-
Notes receivable-Unity Hospital	1,875,000	-	1,875,000	-
TOTAL ASSETS	50,313,798	20,782,111	71,095,909	2,528,687
DEFERRED OUTFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan-NDPERS	696,477	338,213	1,034,690	-
Cost sharing defined OPEB Plan-NDPERS	17,468	8,067	25,535	-
Total deferred outflows	713,945	346,280	1,060,225	-
LIABILITIES				
Accounts payable	559,363	470,565	1,029,928	12,586
Salaries payable	61,345	24,007	85,352	-
Vacations payable	3,488	23,884	27,372	-
Interest payable	93,445	18,988	112,433	-
Due to other governments	77,078	-	77,078	-
Customer deposits	-	222,040	222,040	-
Noncurrent liabilities				
Compensated absences	54,092	-	54,092	-
Bonds and notes payable-due within one year	636,483	203,000	839,483	-
Bonds and notes payable-due in more than one year	17,975,745	2,523,760	20,499,505	-
Net pension liability	1,794,432	828,771	2,623,203	-
Net OPEB Liability	78,623	36,312	114,935	-
TOTAL LIABILITIES	21,334,094	4,351,327	25,685,421	12,586
DEFERRED INFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan-NDPERS	84,076	55,373	139,449	-
Cost sharing defined benefit OPEB Plan-NDPERS	3,316	1,532	4,848	-
Total deferred inflows	87,392	56,905	144,297	-
NET POSITION				
Net investment in capital assets	15,602,298	13,473,462	29,075,760	2,321,016
Restricted-Debt service	597,900	344,340	942,240	-
Restricted-Flood control	7,091,296	-	7,091,296	-
Restricted-Economic development	2,818,282	-	2,818,282	-
Restricted-other	185,283	-	185,283	195,085
Unrestricted (deficit)	3,311,198	2,902,357	6,213,554	-
TOTAL NET POSITION	\$ 29,606,257	\$ 16,720,159	\$ 46,326,416	\$ 2,516,101

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

					Net (Expense) Revenue and Changes in Net Position			
		Program Revenues			Primary Government			
Functions/Programs	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Governmental Activities								
Current								
General government	\$ 754,236	\$ 130,513	\$ -	\$ -	\$ (623,723)	\$ -	\$ (623,723)	\$ -
Public safety	1,572,386	48,932	-	-	(1,523,454)	-	(1,523,454)	-
Highways and streets	930,520	174,826	-	-	(755,694)	-	(755,694)	-
Health and welfare	61,071	-	-	-	(61,071)	-	(61,071)	-
Public Works	4,507,152	-	-	15,328,667	10,821,515	-	10,821,515	-
Other	764,922	-	-	-	(764,922)	-	(764,922)	-
Debt service								
Interest	447,465	-	-	-	(447,465)	-	(447,465)	-
Total Governmental Activities	9,037,752	354,271	-	15,328,667	6,645,186	-	6,645,186	-
Business-Type Activities								
Electric	5,758,232	6,833,611	-	-	-	1,075,379	1,075,379	-
Water	1,205,919	1,183,348	-	29,830	-	7,259	7,259	-
Wastewater	564,928	538,947	-	-	-	(25,981)	(25,981)	-
Sanitation	396,707	422,184	-	-	-	25,477	25,477	-
Pest control	63,485	137,542	-	-	-	74,057	74,057	-
Total Business-Type Activities	7,989,271	9,115,632	-	29,830	-	1,156,191	1,156,191	-
Total Primary Government	\$ 17,027,023	\$ 9,469,903	\$ -	\$ 15,358,497	6,645,186	1,156,191	7,801,377	-
Component Unit								
Airport Authority	\$ 172,970	\$ -	\$ -	\$ 444,139	-	-	-	271,169
Total Component Units	\$ 172,970	\$ -	\$ -	\$ 444,139	-	-	-	271,169
General Receipts:								
Taxes					1,850,135	-	1,850,135	25,562
Special assessments					(20,951)	-	(20,951)	-
Intergovernmental (not restricted for specific program)								
State and federal					645,613	-	645,613	-
Interest earnings					-	52,188	52,188	-
Decrease in long term receivable					(55,000)	-	(55,000)	-
Other general revenues					691,475	22,476	713,951	26,370
Gain (loss) on sale of capital assets					(436)	-	(436)	-
Transfers					872,250	(872,250)	-	-
Total General Receipts, Transfers and Sale of Capital Assets					3,983,086	(797,586)	3,185,500	51,932
Changes in Net Position					10,628,272	358,605	10,986,877	323,101
Net Position, January 1, as originally reported					19,097,070	15,883,038	34,980,108	2,142,566
Prior Period Adjustment - Note 11					(119,085)	478,516	359,431	50,434
Net Position - Beginning as Restated					18,977,985	16,361,554	35,339,539	2,193,000
Net Position, December 31					\$ 29,606,257	\$ 16,720,159	\$ 46,326,416	\$ 2,516,101

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

		<u>Special Revenue</u>	<u>Capital Projects</u>		
	<u>General</u>	<u>Grafton Community Development Sales Tax</u>	<u>Flood Control</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,112,880	\$ 1,561,806	\$ 5,879,902	\$ 577,416	\$ 9,132,004
Investments	975,440	751,100	-	675,962	2,402,502
Receivables:					
Taxes	40,737	-	-	4,657	45,394
Accounts (net of uncollectibles)	1,406	-	-	-	1,406
Other	-	146,968	1,703,200	-	1,850,168
Special assessments	11,170	449,441	-	112,150	572,761
Interest	3,631	-	-	6,236	9,867
Due from other governments	70,500	-	-	7,304	77,804
Prepaid expense	10,321	-	-	-	10,321
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 2,226,085	\$ 2,909,315	\$ 7,583,102	\$ 1,383,725	\$ 14,102,227
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES					
Accounts payable	\$ 42,283	\$ 13,955	\$ 491,806	\$ 5,149	\$ 553,193
Salaries payable	59,049	-	-	-	59,049
Due to other governments	-	77,078	-	-	77,078
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	101,332	91,033	491,806	5,149	689,320
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue- property taxes	40,737	-	-	4,657	45,394
Uncertified special assessments	11,169	449,441	-	112,150	572,760
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Deferred Inflows of Resources	51,906	449,441	-	116,807	618,154
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCE					
Nonspendable	10,321	-	-	-	10,321
Restricted	-	2,368,841	7,091,296	1,231,508	10,691,645
Unrestricted					
Committed	-	-	-	30,261	30,261
Assigned	1,143,435	-	-	-	1,143,435
Unassigned	919,091	-	-	-	919,091
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balance	2,072,847	2,368,841	7,091,296	1,261,769	12,794,753
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 2,226,085	\$ 2,909,315	\$ 7,583,102	\$ 1,383,725	\$ 14,102,227
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

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

Total fund balance-governmental funds	\$ 12,794,753
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 37,837,029	
Accumulated Depreciation	<u>(3,743,264)</u>	
Net		34,093,765

Net deferred outflows (inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.

NDPERS Pension	584,553
NDPERS OPEB	13,509

Some receivables will not be collected soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.

These consist of:

Unavailable revenue-property taxes revenue	45,394
Uncertified special assessments	572,760

Long-term due from Unity Hospital are not available to pay for current period expenditures and therefore are not recorded in the funds.	1,875,000
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The City accounts for its internal maintenance fund as an internal service fund. The assets and liabilities of the internal service fund are included with governmental activities.	174,166
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Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:

Compensated absences	(54,092)	
Accrued interest payable	(93,445)	
Bonds payable	(18,592,869)	
Premium on bonds payable	(155,959)	
Discount on bonds payable	136,600	
Net pension liability	(1,712,830)	
Net OPEB Liability	<u>(75,048)</u>	
		<u>(20,547,643)</u>

Total net position-governmental activities	<u>\$ 29,606,257</u>
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See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General	Special Revenue Grafton Community Development Sales Tax	Capital Projects Flood Control	Other Governmental Funds	Total
REVENUES					
Taxes	\$ 630,436	\$ 899,492	\$ -	\$ 309,293	\$ 1,839,221
Special assessments	9,341	52,880	-	50,117	112,338
Licenses and permits	125,414	-	-	-	125,414
Intergovernmental	641,011	342	15,328,667	4,260	15,974,280
Charges for services	5,099	-	-	-	5,099
Fines and forfeits	48,932	-	-	-	48,932
Miscellaneous	83,388	97,908	111,726	392,616	685,638
Total Revenues	<u>1,543,621</u>	<u>1,050,622</u>	<u>15,440,393</u>	<u>756,286</u>	<u>18,790,922</u>
EXPENDITURES					
Current:					
General government	507,465	-	-	29,317	536,782
Public safety	1,031,918	-	-	348,040	1,379,958
Highways and streets	448,281	-	-	-	448,281
Health and welfare	20,646	-	-	-	20,646
Other	79,230	511,951	-	56,941	648,122
Professional fees	-	-	4,507,152	-	4,507,152
Capital outlay	82,526	-	15,331,334	-	15,413,860
Debt service:					
Principal retirement	24,500	-	-	293,756	318,256
Interest	-	-	-	389,284	389,284
Fiscal charges	-	-	-	-	-
Bond issuance costs	-	-	116,800	-	116,800
Total expenditures	<u>2,194,566</u>	<u>511,951</u>	<u>19,955,286</u>	<u>1,117,338</u>	<u>23,779,141</u>
Revenues Over (Under) Expenditures	(650,945)	538,671	(4,514,893)	(361,052)	(4,988,219)
OTHER FINANCING SOURCES (USES)					
Premium on bond issue	-	-	121,619	-	121,619
Discount on bond issue	-	-	(136,600)	-	(136,600)
Proceeds from issuance of debt	-	-	10,000,000	-	10,000,000
Proceeds from sale of capital assets	3,948	-	-	-	3,948
Operating transfers in	867,739	-	-	411,018	1,278,757
Operating transfers out	(5,885)	(411,018)	-	(26,854)	(443,757)
Total Other Financing Sources (Uses)	<u>865,802</u>	<u>(411,018)</u>	<u>9,985,019</u>	<u>384,164</u>	<u>10,823,967</u>
Net Change in Fund Balance	<u>214,857</u>	<u>127,653</u>	<u>5,470,126</u>	<u>23,112</u>	<u>5,835,748</u>
Fund Balance - January 1	<u>1,857,990</u>	<u>2,241,188</u>	<u>1,621,170</u>	<u>1,238,657</u>	<u>6,959,005</u>
Fund Balance - December 31	<u>\$ 2,072,847</u>	<u>\$ 2,368,841</u>	<u>\$ 7,091,296</u>	<u>\$ 1,261,769</u>	<u>\$ 12,794,753</u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Net change in fund balance- total governmental funds	\$	5,835,748
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	15,413,860	
Loss on disposal	(4,384)	
Depreciation expense	(505,696)	
Excess of capital outlay over depreciation expense		14,903,780

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Position. Loan proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the Statement of Net Position.

Principal debt payments	318,256	
Loan proceeds	(9,985,019)	
Amortization of bond premium	2,020	
		(9,664,743)

Some revenues will not be collected for several months after the City's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:

Net change in unavailable revenue-property taxes revenue		10,914
Net change in uncertified special assessments		(133,289)

Revenues in the statement of activities that do not provide current resources:

Decrease in long term receivable		(55,000)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest decreased.

(60,201)

Changes in deferred outflows and inflows of resources related to net pension and OPEB liabilities

(87,794)

Change in net pension and OPEB liabilities

(118,818)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the government funds. These activities consist of:

Net decrease in accrued vacation		2,869
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An internal service fund is used by the City to account for its maintenance operations. The net income of the internal service fund is reported with governmental activities.

(5,194)

Net change in net position of governmental activities

\$ 10,628,272

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2018

	Business-type Activities Enterprise Funds						Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
ASSETS							
Current assets							
Cash and cash equivalents	\$ 601,928	\$ 732,925	\$ 171,174	\$ 66,178	\$ 73,346	\$ 1,645,551	\$ 50,252
Restricted cash and cash equivalents	-	76,124	15,215	-	-	91,339	-
Investments	400,660	350,000	50,000	175,000	125,000	1,100,660	-
Receivables:							
Other	13,623	17,585	-	-	-	31,208	-
Accounts (net of uncollectibles)	836,618	128,445	59,155	47,629	15,946	1,087,793	-
Interest	-	620	155	378	533	1,686	-
Prepaid expenses	10,471	5,085	1,090	-	12	16,658	995
Inventory	258,450	89,088	6,456	-	-	353,994	70,798
Total current assets	2,121,750	1,399,872	303,244	289,185	214,837	4,328,888	122,045
Capital assets-not being depreciated							
Land	677,145	40,810	195,993	50,524	-	964,472	-
Construction in progress	43,345	-	1,563	-	-	44,908	9,500
Capital assets							
Buildings/Improvements	1,352,665	7,707,675	952,449	13,900	-	10,026,689	524,131
Transmission system	7,106,570	10,274,431	5,802,690	-	-	23,183,691	38,979
Machinery and equipment	768,515	178,359	359,644	3,940	36,267	1,346,725	37,512
Total capital assets	9,948,240	18,201,275	7,312,339	68,364	36,267	35,566,485	610,122
Less accumulated depreciation	(6,641,217)	(8,157,529)	(4,518,952)	(14,088)	(34,477)	(19,366,263)	(489,361)
Net capital assets	3,307,023	10,043,746	2,793,387	54,276	1,790	16,200,222	120,761
Other assets							
Restricted cash and cash equivalents	-	223,195	29,806	-	-	253,001	-
TOTAL ASSETS	5,428,773	11,666,813	3,126,437	343,461	216,627	20,782,111	242,806
DEFERRED OUTFLOWS OF RESOURCES							
Cost sharing defined benefit pension plan-NDPERS	152,273	128,572	57,368	-	-	338,213	33,301
Cost sharing defined benefit OPEB Plan-NDPERS	3,632	3,067	1,368	-	-	8,067	794
Total deferred outflows	155,905	131,639	58,736	-	-	346,280	34,095
LIABILITIES							
Current liabilities							
Accounts payable	423,288	33,445	12,151	1,491	190	470,565	6,170
Salaries payable	10,497	8,722	4,788	-	-	24,007	2,296
Vacations payable	10,158	8,953	4,773	-	-	23,884	3,488
Interest payable	-	15,183	3,805	-	-	18,988	-
Bonds payable-current portion	-	172,000	31,000	-	-	203,000	-
Customer deposits	222,040	-	-	-	-	222,040	-
Total current liabilities	665,983	238,303	56,517	1,491	190	962,484	11,954
Long-term liabilities							
Non-current portion	-	2,000,000	523,760	-	-	2,523,760	-
Net pension liability	373,135	315,058	140,578	-	-	828,771	81,602
Net OPEB Liability	16,349	13,804	6,159	-	-	36,312	3,575
Total non-current liabilities	389,484	2,328,862	670,497	-	-	3,388,843	85,177
TOTAL LIABILITIES	1,055,467	2,567,165	727,014	1,491	190	4,351,327	97,131
DEFERRED INFLOWS OF RESOURCES							
Cost sharing defined benefit pension plan-NDPERS	24,931	21,050	9,392	-	-	55,373	5,453
Cost sharing defined benefit OPEB Plan-NDPERS	690	582	260	-	-	1,532	151
Total deferred inflows	25,621	21,632	9,652	-	-	56,905	5,604
NET POSITION							
Net investment in capital assets	3,307,023	7,871,746	2,238,627	54,276	1,790	13,473,462	120,761
Restricted for bond covenants	-	299,319	45,021	-	-	344,340	-
Unrestricted	1,196,567	1,038,590	164,859	287,694	214,647	2,902,357	53,405
TOTAL NET POSITION	\$ 4,503,590	\$ 9,209,655	\$ 2,448,507	\$ 341,970	\$ 216,437	\$ 16,720,159	\$ 174,166

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities Enterprise Funds					Governmental Activities	
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
Operating Revenues:							
Sales - Net of Discounts	\$ 6,730,727	\$ 1,179,297	\$ 538,847	\$ 422,184	\$ 137,542	\$ 9,008,597	\$ 174,826
Operating Expenses:							
Cost of goods sold	4,468,161	-	-	-	-	4,468,161	94,307
Utilities and phone	12,740	98,406	101,598	470	-	213,214	8,815
Materials and supplies	6,852	3,207	2,650	-	-	12,709	2,823
Repairs and maintenance	17,478	8,130	3,101	-	-	28,709	5,268
Gas, fuel and oil	4,170	2,790	1,914	-	-	8,874	618
Insurance	75,271	72,619	56,581	3	38	204,512	21,961
Uniforms	4,488	407	-	-	-	4,895	-
Contracted services	6,769	4,523	1,152	362,841	40,413	415,698	-
Technology	-	8,817	-	-	-	8,817	-
Salaries	242,633	205,271	90,764	-	-	538,668	51,116
Payroll taxes	18,185	14,982	6,772	-	-	39,939	3,708
Retirement	84,130	52,793	25,639	-	-	162,562	12,833
Rent	-	-	6,733	-	-	6,733	-
Miscellaneous	42,801	14,490	(158)	915	292	58,340	4,995
Depreciation	233,963	366,233	170,373	1,043	1,791	773,403	13,474
General equipment	20,553	695	8,729	-	329	30,306	3,000
Operating expenses	290,445	145,389	47,651	28,000	-	511,485	-
Distribution system	38,517	11,671	25,943	-	320	76,451	-
Collection fees	2,682	-	-	3,435	-	6,117	-
Donated and internal use	177,433	5,974	-	-	-	183,407	-
Chemicals	-	93,332	2,043	-	20,302	115,677	-
Travel and training	150	1,638	1,528	-	-	3,316	190
Structures and improvements	-	43,270	-	-	-	43,270	-
Total Operating Expenses	5,747,421	1,154,637	553,013	396,707	63,485	7,915,263	223,108
Operating Income (Loss)	983,306	24,660	(14,166)	25,477	74,057	1,093,334	(48,282)
Non-Operating Revenues (Expenses):							
Materials sold	15,091	3,051	-	-	-	18,142	-
Interest earnings	18,291	23,125	4,083	3,828	2,861	52,188	838
Minnkota lease	86,601	-	-	-	-	86,601	-
Rent	1,192	1,000	100	-	-	2,292	5,000
Miscellaneous	7,572	9,206	(999)	6,097	597	22,473	-
Sale of fixed assets	-	-	-	-	-	-	-
Grant reimbursement	-	29,830	-	-	-	29,830	-
Cost of materials sold	(9,311)	(3,240)	-	-	-	(12,551)	-
FEMA flood expenses	-	-	-	-	-	-	-
Incentives	(1,500)	-	-	-	-	(1,500)	-
Interest expense	-	(48,042)	(11,915)	-	-	(59,957)	-
Total Non-Operating Revenues (Expense)	117,936	14,930	(8,731)	9,925	3,458	137,518	5,838
Income (Loss) Before Operating Transfers and contributions	1,101,242	39,590	(22,897)	35,402	77,515	1,230,852	(42,444)
Capital Contributions	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	37,250
Operating Transfers (Out)	(694,750)	(125,000)	(25,000)	(27,500)	-	(872,250)	-
Net Income (Loss)	406,492	(85,410)	(47,897)	7,902	77,515	358,602	(5,194)
Net Position, January 1, originally reported	3,601,557	9,306,928	2,501,566	334,068	138,922	15,883,041	182,486
Prior Period Adjustment	495,541	(11,863)	(5,162)	-	-	478,516	(3,126)
Net Position - Beginning as Restated	4,097,098	9,295,065	2,496,404	334,068	138,922	16,361,557	179,360
Net Position, December 31	\$ 4,503,590	\$ 9,209,655	\$ 2,448,507	\$ 341,970	\$ 216,437	\$ 16,720,159	\$ 174,166

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities Enterprise Funds					Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 6,703,442	\$ 1,186,232	\$ 542,509	\$ 423,407	\$ 137,946	\$ 8,993,536
Cash payments to suppliers	(5,346,109)	(581,411)	(342,714)	(395,310)	(61,690)	(6,727,234)
Cash paid to employees	(184,820)	(174,701)	(75,041)	-	-	(434,562)
Net cash flow from (to) operating activities	1,172,513	430,120	124,754	28,097	76,256	1,831,740
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Miscellaneous revenues (expenses)	99,645	10,017	(899)	6,096	598	115,457
Transfers to (from) other funds	(694,750)	(125,000)	(25,000)	(27,500)	-	(872,250)
Net cash flow from (to) non-capital financing activities	(595,105)	(114,983)	(25,899)	(21,404)	598	(756,793)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchases of property and equipment	(180,287)	(132,958)	(66,823)	(600)	-	(380,668)
Proceeds from capital grant	-	30,215	50,960	-	148	81,323
Principal paid on debt	-	(170,757)	(31,000)	-	-	(201,757)
Interest paid on debt	-	(49,279)	(12,165)	-	-	(61,444)
Net cash flow from (to) capital and related financing activities	(180,287)	(322,779)	(59,028)	(600)	148	(562,546)
CASH FLOWS FROM INVESTING ACTIVITIES						
Collections of notes receivable	26,000	-	-	-	-	26,000
Interest income	19,167	23,527	4,022	4,353	2,632	53,701
(Purchase) Sale of certificates of deposits	(149,660)	1,830	-	1,610	(50,000)	(196,220)
Net cash flow from (to) investing activities	(104,493)	25,357	4,022	5,963	(47,368)	(116,519)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	292,628	17,715	43,849	12,056	29,634	395,882
CASH AND CASH EQUIVALENTS, JANUARY 1, 2018	309,300	1,014,529	172,345	54,122	43,712	1,594,008
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2018	\$ 601,928	\$ 1,032,244	\$ 216,194	\$ 66,178	\$ 73,346	\$ 1,989,890
Cash and cash equivalents are comprised of the following:						
Cash and cash equivalents	\$ 601,928	\$ 732,925	\$ 171,174	\$ 66,178	\$ 73,346	\$ 1,645,551
Restricted cash and cash equivalents	-	76,124	15,215	-	-	91,339
Restricted cash and cash equivalents	-	223,195	29,806	-	-	253,001
Total cash and cash equivalents on the Statement of Net Position	\$ 601,928	\$ 1,032,244	\$ 216,194	\$ 66,178	\$ 73,346	\$ 1,989,890
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES						
Operating Income (loss)	\$ 983,306	\$ 24,660	\$ (14,166)	\$ 25,477	\$ 74,057	\$ 1,093,334
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	233,963	366,233	170,373	1,043	1,791	773,403
Changes in assets and liabilities						
(Increase)/Decrease in Accounts receivable	(46,320)	6,935	3,662	1,223	404	(34,096)
(Increase)/Decrease in Inventory	(54,614)	(2,454)	(293)	-	-	(57,361)
(Increase)/Decrease in Prepaid expenses	(6,347)	(149)	(109)	3	(3)	(6,605)
(Increase)/Decrease in Deferred outflows of resources	(18,089)	(2,790)	(2,670)	-	-	(23,549)
Increase/(Decrease) in Accounts payable	(14,323)	4,325	(50,436)	351	7	(60,076)
Increase/(Decrease) in Customer deposits	19,035	-	-	-	-	19,035
Increase/(Decrease) in Deferred inflows of resources	9,635	6,687	3,149	-	-	19,471
Increase/(Decrease) in Net pension liability	64,261	26,279	14,920	-	-	105,460
Increase/(Decrease) in Net OPEB liability	2,006	394	324	-	-	2,724
Net cash provided (used) by operating activities	\$ 1,172,513	\$ 430,120	\$ 124,754	\$ 28,097	\$ 76,256	\$ 1,831,740

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2018

	<u>Agency Funds</u>		Christian Unity Hospital	
	<u>Recreation</u>	<u>Library</u>		<u>Total</u>
ASSETS				
Investments	\$ -	\$ -	\$ 161,175	\$ 161,175
Taxes receivable	1,357	2,121	-	3,478
Interest receivable	-	-	2,424	2,424
Due from other governments	2,175	3,325	-	5,500
TOTAL ASSETS	<u><u>\$ 3,532</u></u>	<u><u>\$ 5,446</u></u>	<u><u>\$ 163,599</u></u>	<u><u>\$ 172,577</u></u>
LIABILITIES				
Due to other entities	\$ 2,175	\$ 3,325	\$ 163,599	\$ 169,099
Unearned revenues	1,357	2,121	-	3,478
TOTAL LIABILITIES	<u><u>\$ 3,532</u></u>	<u><u>\$ 5,446</u></u>	<u><u>\$ 163,599</u></u>	<u><u>\$ 172,577</u></u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of the City of Grafton have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

The City uses the criteria established by the Governmental Accounting Standards Board in determining financial accountability. The criteria include, but are not limited to, appointing a voting majority of an organization's governing board, and 1) the ability of the entity to impose its will on that organization or 2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the entity. The City has determined that the airport authority and the volunteer fire department meet the above criteria and, therefore, have been included as component units in the City's financial statements.

Airport Authority

The Airport Authority oversees the operation and maintenance of the airport and is a discretely presented component unit. Separate financial statements have not been issued by the Airport Authority.

Volunteer Fire Department

The volunteer fire department is funded in part by the City and provides fire protection for the City of Grafton and is presented as a blended component unit. Separate financial statements for the volunteer fire department have not been issued.

Basis of Presentation

Government-Wide Financial Statements

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Fund Financial Statements

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

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

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

Governmental Funds

General Fund

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

Special Revenue Fund

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

Debt Service Fund

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

Capital Projects

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

Proprietary Funds

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Internal Service funds account for the financing of services provided by one department to other departments within the City on a cost reimbursement basis. These include the maintenance fund. This fund is a proprietary fund reported with governmental activities in the government-wide statements.

Fiduciary Funds

The reporting focus of fiduciary funds is on assets and liabilities. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The following are the City of Grafton's Fiduciary Fund types:

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds.

Measurement Focus and Basis of Accounting

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

Measurement Focus

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

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

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

Cash and Investments

Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by North Dakota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

In accordance with government accounting standards, the City considers cash equivalents to be temporary investments which are readily convertible to cash, such as commercial paper, and treasury bills with an original maturity of less than three months when purchased. Investments consist entirely of certificate of deposits.

Revenues

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

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

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

Revenues-Exchange and Non-Exchange Transactions

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

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

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

Property Taxes

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Inventories and Prepaid Expenses

Proprietary fund inventories are stated at cost determined on a first-in, first-out basis. They are recorded as an expense at the time individual inventory items are used.

Prepaid expenses represent payments made to vendors that benefit future reporting periods. The prepaid items are recognized as an expense/expenditure in the year the services are consumed.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e. roads, bridges, sidewalks, storm sewers and similar improvements), are reported in the government-wide statements in the applicable governmental or business-type activities column and in the proprietary fund statements. Capital assets that have been purchased or constructed have been valued at historical cost or estimated historical cost. Donated assets are recorded at estimated acquisition value at the time of donation. The City has established a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Building and improvements	20 – 85 years
Transmission systems	5 – 40 years
Vehicles and equipment	5 – 25 years

Compensated Absences

Employees accrue vacation leave at a rate of 3.39 hours per bi-weekly pay period from 0 - 6 years, 4.93 hours per bi-weekly pay period from 7 - 14 years, and 6.47 hours per bi-weekly pay period after fifteen plus years of service. The amount of vacation leave is to be used at the discretion of the employee and their department head. At the end of the calendar year, the employee may carry over the total sum of hours earned that year to be used the following year. Any vacation time in excess will be forfeited. All outstanding vacation is payable upon termination.

Sick leave is accrued at a rate of 3.7 hours per bi-weekly pay period for a limit of 96 hours of sick leave, which can be accumulated per year. However, liabilities are not recorded in any fund as there is no provision for vesting of unused sick leave. Upon retirement 10% of the sick leave hours will be paid provided that management is notified by June 30 prior to retirement.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements. In the governmental fund financial statements, long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Sources" and "Expenditures", respectively, in the fund financial statements.

Net Position

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

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

Fund Balances

The difference between assets and liabilities is "Net Position" on the government wide financial statements and "Fund Balance" on the governmental fund financial statements.

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

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

The first priority is to utilize the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Minimum Fund Balance Policy

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

Inter-fund Balances

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

Inter-fund Activity

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

Encumbrances

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

Estimates

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Significant Group Concentrations of Credit Risk

As of December 31, 2018, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security. The City does require a utility deposit for the utility customers.

Unearned Revenue

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

Pensions

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

Other Post Employment Benefits (OPEB)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has two items reported on the statement of net position as *cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan* which represents actuarial differences within the NDPERS pension plans and NDPERS OPEB plan as well as amounts paid to the plans after the measurement date. See Notes 5 and 6 for more details.

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

amounts become available. The City also has two items reported on the statement of net position as *cost sharing defined benefit pension plan and cost sharing defined OPEB plan*, which represents the actuarial differences within the NDPERS pension plans and OPEB plan. See Notes 5 and 6 for more details.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash pool of which each fund's portion of the pool is displayed on their respective balance sheet as cash and cash equivalents. In addition, non-pooled investments are separately held and reflected in their respective funds balance sheet as investments. The City's investments consist of money market accounts and certificates of deposits.

In accordance with North Dakota laws, the City maintains deposits at depositories authorized by the city council. The depositories are members of the Federal Reserve System.

Interest Rate Risk

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

Custodial Risk

This is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The City maintains cash deposits at various financial institutions. The amounts on deposit were insured up by the FDIC up to \$250,000. At December 31, 2018, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$14,871,905 of the City's deposits are covered by letters of credit and pledged securities held in the City's name. The total securities pledged exceed 110% of the uninsured balance.

Credit Risk

State statutes authorize local governments to invest in:

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The City has implemented an investment policy that limits investing too large of a portion in one type of investment instrument. The following is the maximum percentages the City will invest in each type of investment:

U.S. Treasury (Bills, notes & bonds)	90%
U.S. Government Agencies Securities	90%
Certificates of Deposit	90%

Also, the City of Grafton has adopted a policy not to invest more than 70% of the total portfolio in any one institution.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended December 31, 2018 are as follows:

	Restated Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities Capital Assets:				
Buildings and improvements	\$ 1,335,227	\$ 16,293	\$ -	\$ 1,351,520
Vehicles and equipment	3,288,172	42,454	73,321	3,257,305
Infrastructure	8,959,884	46,151	-	9,006,035
Construction in progress	7,398,748	15,149,182	-	22,547,930
Construction in progress - Land	2,091,491	192,870	-	2,284,361
Total	<u>23,073,522</u>	<u>15,446,950</u>	<u>73,321</u>	<u>38,447,151</u>
Governmental Activities Accumulated Depreciation:				
Buildings and improvements	791,881	65,732	-	857,613
Vehicles and equipment	1,690,480	251,789	61,637	1,880,632
Infrastructure	1,292,757	201,622	-	1,494,379
Total	<u>3,775,118</u>	<u>519,143</u>	<u>61,637</u>	<u>4,232,624</u>
Net Capital Assets - Governmental Activities	<u>\$ 19,298,404</u>	<u>\$ 14,927,807</u>	<u>\$ 11,684</u>	<u>\$ 34,214,527</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Changes in capital assets for business-type activities for the year ended December 31, 2018 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities Capital Assets:				
Land	\$ 964,472	\$ -	\$ -	\$ 964,472
Buildings and improvements	9,908,839	117,850	-	10,026,689
Transmission system	22,337,866	845,826	-	23,183,692
Vehicles and equipment	1,284,072	80,134	17,482	1,346,724
Construction in progress	199,815	192,683	347,590	44,908
Total	34,695,064	1,236,493	365,072	35,566,485
Business-Type Activities Accumulated Depreciation:				
Buildings and improvements	2,150,334	179,662	-	2,329,996
Transmission system	15,596,864	498,411	-	16,095,275
Vehicles and equipment	863,142	95,330	17,480	940,992
Total	18,610,340	773,403	17,480	19,366,263
Net Capital Assets				
Business-Type Activities	<u>\$ 16,084,724</u>	<u>\$ 463,090</u>	<u>\$ 347,592</u>	<u>\$ 16,200,222</u>

Changes in capital assets for component unit for the year ended December 31, 2018 are as follows:

	Restated Beginning Balance	Additions	Disposals	Ending Balance
Component Unit Capital Assets:				
Buildings and improvements	\$ 2,451,928	\$ 455,907	\$ -	\$ 2,907,835
Construction in process	50,434	-	50,434	-
Vehicles and equipment	5,850	-	-	5,850
Total	2,508,212	455,907	50,434	2,913,685
Component Unit Accumulated Depreciation:				
Buildings and improvements	489,968	96,851	-	586,819
Vehicles and equipment	5,850	-	-	5,850
Total	495,818	96,851	-	592,669
Net Capital Assets - Component Unit	<u>\$ 2,012,394</u>	<u>\$ 359,056</u>	<u>\$ 50,434</u>	<u>\$ 2,321,016</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

Governmental Activities	
General Government	\$ 13,712
Public Safety	192,428
Highways and Streets	259,131
Health and Recreation	40,425
Internal Service	<u>13,447</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 519,143</u>
Business-Type Activities	
Electric	\$ 233,963
Water	366,233
Wastewater	170,373
Sanitation	1,043
Pest Control	<u>1,791</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 773,403</u>
Total Depreciation Expense - Component Unit	<u>\$ 96,851</u>

NOTE 4 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in governmental activities long-term debt by individual issue for the year ended December 31, 2018:

GOVERNMENTAL ACTIVITIES	Interest Rate	Restated Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
Refunding Improvement Bonds:								
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,095,000	\$ -	\$ (25,000)	\$ -	\$ 3,070,000	\$ 160,000	\$ 6,791
Bond Premium		36,360	-	-	(2,020)	34,340	-	-
\$405,000 of 2008B	3.15% - 3.7%	20,000	-	(20,000)	-	-	-	-
\$10,000,000 of 2018	3.50% - 4.0%	-	10,000,000	-	-	10,000,000	225,000	61,293
Bond Premium		-	121,619	-	-	121,619	-	-
Bond Discount		-	(136,600)	-	-	(136,600)	-	-
General Obligation Bonds 2012	.4%-1.4%	470,000	-	(90,000)	-	380,000	90,000	810
Sales Tax Revenue Bonds								
\$2,350,000 2008A	3.5% - 5.5%	1,930,000	-	(55,000)	-	1,875,000	60,000	16,517
Definitive Improvement 2017	1.50%	3,371,626	-	(103,757)	-	3,267,869	101,483	8,034
Compensated Absences		56,961	-	-	(2,869)	54,092	-	-
Other Debt:								
Due to Electric -General Fund Fire	0.00%	24,500	-	(24,500)	-	-	-	-
Net Pension Liability		1,671,077	-	-	123,355	1,794,432	-	-
Net OPEB Liability		77,601	-	-	1,022	78,623	-	-
		<u>\$ 10,753,125</u>	<u>\$ 9,985,019</u>	<u>\$ (318,257)</u>	<u>\$ 119,488</u>	<u>\$ 20,539,375</u>	<u>\$ 636,483</u>	<u>\$ 93,445</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

Governmental Activities

<u>\$2,350,000 Sales Tax Revenue Bonds</u>				<u>\$890,000 General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 60,000	\$ 100,338	\$ 160,338	\$ 90,000	\$ 4,340	\$ 94,340
2020	60,000	97,750	157,750	95,000	3,276	98,276
2021	65,000	95,050	160,050	95,000	1,365	96,365
2022	65,000	93,085	158,085	100,000	700	100,700
2023	70,000	89,825	159,825	-	-	-
2024-2028	400,000	370,847	770,847	-	-	-
2029-2033	500,000	251,625	751,625	-	-	-
2034-2038	655,000	93,363	748,363	-	-	-
	<u>\$ 1,875,000</u>	<u>\$ 1,191,883</u>	<u>\$ 3,066,883</u>	<u>\$ 380,000</u>	<u>\$ 9,681</u>	<u>\$ 389,681</u>

<u>\$3,500,000 Refunding Improvement 2015</u>				<u>2017 Definitive Warrant</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 160,000	\$ 81,495	\$ 241,495	\$ 101,483	\$ 50,625	\$ 152,108
2020	160,000	79,495	239,495	102,244	49,114	151,358
2021	165,000	76,295	241,295	103,011	47,592	150,603
2022	170,000	73,295	243,295	103,783	46,058	149,841
2023	175,000	69,595	244,595	104,562	44,513	149,075
2024-2028	925,000	282,775	1,207,775	534,690	187,008	721,698
2029-2033	1,075,000	137,200	1,212,200	555,042	146,148	701,190
2034-2038	240,000	7,440	247,440	576,172	103,732	679,904
2039-2043	-	-	-	598,104	59,702	657,806
2044-2048	-	-	-	488,778	14,588	503,366
	<u>\$ 3,070,000</u>	<u>\$ 807,590</u>	<u>\$ 3,877,590</u>	<u>\$ 3,267,869</u>	<u>\$ 749,080</u>	<u>\$ 4,016,949</u>

<u>2018 Refunding Improvement Bonds</u>				<u>Combined Debt Payments Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 225,000	\$ 363,818	\$ 588,818	\$ 636,483	\$ 236,798	\$ 873,281
2020	200,000	356,382	556,382	617,244	586,017	1,203,261
2021	205,000	349,294	554,294	633,011	569,596	1,202,607
2022	215,000	341,944	556,944	653,783	555,082	1,208,865
2023	220,000	334,332	554,332	569,562	538,265	1,107,827
2024-2028	1,225,000	1,548,020	2,773,020	3,084,690	2,388,650	5,473,340
2029-2033	1,450,000	1,314,655	2,764,655	3,580,042	1,849,628	5,429,670
2034-2038	1,725,000	1,037,545	2,762,545	3,196,172	1,242,080	4,438,252
2039-2043	2,050,000	700,983	2,750,983	2,648,104	760,685	3,408,789
2044-2048	2,485,000	255,900	2,740,900	2,973,778	270,488	3,244,266
	<u>\$ 10,000,000</u>	<u>\$ 6,602,873</u>	<u>\$ 16,602,873</u>	<u>\$ 18,592,869</u>	<u>\$ 8,997,289</u>	<u>\$ 27,590,158</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The following is a summary of changes in business-type activities long-term debt by individual issue for the year ended December 31, 2018:

BUSINESS-TYPE ACTIVITIES	Interest Rate	Restated Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
<u>Water</u>								
ND Public Finance Water Revenue Bonds	2.50%	\$ 85,000	\$ -	\$ (15,000)	\$ -	\$ 70,000	\$ 15,000	\$ 583
ND Public Finance	2.50%	417,000	-	(65,000)	-	352,000	67,000	2,933
ND Public Finance	2.00%	1,840,757	-	(90,757)	-	1,750,000	90,000	11,673
Net Pension Liability		288,780	-	-	26,279	315,059	-	-
Net OPEB Liability		13,410	-	-	394	13,804	-	-
		<u>\$ 2,644,947</u>	<u>\$ -</u>	<u>\$ (170,757)</u>	<u>\$ 26,673</u>	<u>\$ 2,500,863</u>	<u>\$ 172,000</u>	<u>\$ 15,189</u>
<u>Wastewater</u>								
ND Public Finance-Clean Water Loan	2.00%	\$ 495,760	\$ -	\$ (1,000)	\$ -	\$ 494,760	\$ 1,000	\$ 500
ND Public Finance-Sewer Revenue Bonds	2.50%	90,000	-	(30,000)	-	60,000	30,000	3,299
Net Pension Liability		125,657	-	-	14,920	140,577	-	-
Net OPEB Liability		5,835	-	-	324	6,159	-	-
		<u>\$ 717,252</u>	<u>\$ -</u>	<u>\$ (31,000)</u>	<u>\$ 15,244</u>	<u>\$ 701,496</u>	<u>\$ 31,000</u>	<u>\$ 3,799</u>
<u>Electric</u>								
Net Pension Liability		\$ 308,875	\$ -	\$ -	\$ 64,260	\$ 373,135	\$ -	\$ -
Net OPEB Liability		14,343	-	-	2,006	16,349	-	-
		<u>\$ 323,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,266</u>	<u>\$ 389,484</u>	<u>\$ -</u>	<u>\$ -</u>

The amount of future payments and the combined future payments on the above business-type activities long-term debt is as follows:

	\$285,616 North Dakota Public Finance			North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 15,000	\$ 1,750	\$ 16,750	\$ 90,000	\$ 35,000	\$ 125,000
2020	15,000	1,375	16,375	95,000	33,200	128,200
2021	20,000	1,000	21,000	95,000	31,300	126,300
2022	20,000	500	20,500	95,000	29,400	124,400
2023	-	-	-	100,000	27,500	127,500
2024-2028	-	-	-	535,000	106,800	641,800
2029-2033	-	-	-	610,000	50,300	660,300
2034-2038	-	-	-	130,000	2,600	132,600
	<u>\$ 70,000</u>	<u>\$ 4,625</u>	<u>\$ 74,625</u>	<u>\$ 1,750,000</u>	<u>\$ 316,100</u>	<u>\$ 2,066,100</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

	North Dakota Public Finance			Combined Debt Payments Business-Type Activities-Water		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 67,000	\$ 8,800	\$ 75,800	\$ 172,000	\$ 45,550	\$ 217,550
2020	68,000	7,125	75,125	178,000	41,700	219,700
2021	70,000	5,425	75,425	185,000	37,725	222,725
2022	72,000	3,675	75,675	187,000	33,575	220,575
2023	75,000	1,875	76,875	175,000	29,375	204,375
2024-2028	-	-	-	535,000	106,800	641,800
2029-2033	-	-	-	610,000	50,300	660,300
2034-2038	-	-	-	130,000	2,600	132,600
	<u>\$ 352,000</u>	<u>\$ 26,900</u>	<u>\$ 378,900</u>	<u>\$ 2,172,000</u>	<u>\$ 347,625</u>	<u>\$ 2,519,625</u>

	North Dakota Public Finance			\$150,000 North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 1,000	\$ 9,915	\$ 10,915	\$ 30,000	\$ 1,500	\$ 31,500
2020	1,000	9,895	10,895	30,000	750	30,750
2021	42,760	9,875	52,635	-	-	-
2022	45,000	9,855	54,855	-	-	-
2023	50,000	9,000	59,000	-	-	-
2024-2028	250,000	25,500	275,500	-	-	-
2029-2033	105,000	3,200	108,200	-	-	-
	<u>\$ 494,760</u>	<u>\$ 77,240</u>	<u>\$ 572,000</u>	<u>\$ 60,000</u>	<u>\$ 2,250</u>	<u>\$ 62,250</u>

	Combined Debt Payments Business-Type Activities-Wastewater		
	Principal	Interest	Total
2019	\$ 31,000	\$ 11,415	\$ 42,415
2020	31,000	10,645	41,645
2021	42,760	9,875	52,635
2022	45,000	9,855	54,855
2023	50,000	9,000	59,000
2024-2028	250,000	25,500	275,500
2029-2033	105,000	3,200	108,200
	<u>\$ 554,760</u>	<u>\$ 79,490</u>	<u>\$ 634,250</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 5 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

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

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At December 31, 2018, the City reported a liability of \$2,623,203 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the City's proportion was 0.155439 percent which was an increase of 0.006472 percent from its proportion measured at June 30, 2017.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

For the year ended December 31, 2018, the City recognized pension expense of \$432,434. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 6,944	\$ 89,246
Changes in actuarial assumptions	946,922	37,441
Difference between projected and actual investment earnings	-	12,762
Changes in proportion	27,574	-
Contributions paid to NDPERS subsequent to the measurement date	53,250	-
Total	<u>\$ 1,034,690</u>	<u>\$ 139,449</u>

\$53,250 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019.

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

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2019	\$ 270,387
2020	235,689
2021	206,614
2022	117,985
2023	11,316

Actuarial Assumptions

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

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	10.00%
	36 - 40	7.50%
	41 - 49	6.75%
	50-59	6.50%
	60+	5.25%
	*Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%

Discount Rate

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

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

	1% Decrease in Discount Rate 5.32%	Discount Rate 6.32%	1% Increase in Discount Rate 7.32%
City's proportionate share of the NDPERS net pension liability:	\$ 3,564,445	\$ 2,623,203	\$ 1,837,766

Pension Plan Fiduciary Net Position

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

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

OPEB Benefits

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

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

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

At December 31, 2018, the City reported a liability of \$114,935 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.145936 percent.

For the year ended December 31, 2018, the City recognized OPEB expense of \$14,127. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,441	\$ 2,375
Changes in actuarial assumptions	9,430	-
Difference between projected and actual investment earnings	-	2,473
Changes in proportion	3,328	-
Contributions paid to NDPERS subsequent to the measurement date	9,336	-
Total	<u>\$ 25,535</u>	<u>\$ 4,848</u>

\$9,336 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Year Ending June 30:	OPEB Expense Amount
2019	\$ 1,495
2020	1,495
2021	1,495
2022	2,586
2023	2,386
2024	1,577
2025 and thereafter	317

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37.00%	7.15%
Small Cap Domestic Equities	9.00%	14.42%
International Equities	14.00%	8.83%
Core-plus Fixed income	40.00%	0.10%

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease in Discount Rate 6.50%	Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
City's proportionate share of the NDPERS net OPEB liability:	\$ 145,420	\$ 114,935	\$ 88,801

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2018, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. The City's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance and vehicle and inland marine insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workers' Compensation Bureau. Other risks are covered by private insurance.

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

Commitments

The City, as part of its economic development program has commitments to various businesses to provide financial support or other economic assistance on an annual basis. The payment of these incentives is contingent based upon the businesses meeting or exceeding criteria established within each specific agreement.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The City has entered into contracts with the engineer for the flood control project. In addition, the City awarded a construction contract in the amount of approximately \$48,000,000 for construction related to the flood control project. The amount of total costs completed as of December 31, 2018 was \$29,307,269 for the flood control project.

NOTE 8 - SCHEDULE OF TRANSFERS

Transfers to General Fund from	
Electric Fund	\$ 657,500
Water Fund	125,000
Wastewater Fund	25,000
Sanitation Fund	27,500
2008-B Refunding Bond Fund	26,854
	<u>\$ 861,854</u>
 Transfers from Special Revenue Sales Tax to	
Debt Service	<u>\$ 411,018</u>
 Transfer from Electric Fund to	
Internal Service Fund	<u>\$ 37,250</u>

The Council has adopted a policy to transfer surplus utility funds to the general fund each year to meet the annual budget. The transfers from the sales tax fund were to fund debt service payments. The transfer from the debt service fund to the general fund was to close the 2008-B fund.

NOTE 9 - UNITY HOSPITAL PROJECT

The City issued bonds in 2008 to fund the construction project for the Christian Unity Hospital. The City has loaned the proceeds of the bond issue to the Hospital to pay for the construction. The City has a 2.5% city sales tax and has designated 20% of this tax towards the repayment of the bonds. In addition, the Hospital has deposited with the City a reserve fund in the amount of \$161,175. This reserve fund is to be held by the City and to be applied to the bond payments in the event that sales tax collections are not sufficient to meet the debt service requirements of the bonds. Any sales tax collected in excess of debt service requirements shall be transferred to the Hospital.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 10 - FUND BALANCES

Fund balance is categorized as follows:

	General	Grafton Community Development Sales Tax	Flood Control	Other Governmental Funds	Total
Fund Balances					
Nonspendable					
Prepays	\$ 10,321	\$ -	\$ -	\$ -	\$ 10,321
Total nonspendable	10,321	-	-	-	10,321
Restricted					
Debt service	-	-	-	482,209	482,209
Flood control	-	-	7,091,296	-	7,091,296
Economic development	-	2,368,841	-	-	2,368,841
Community development	-	-	-	1,019	1,019
Cemetery	-	-	-	69,120	69,120
Lodging	-	-	-	44,652	44,652
Annual special assessment	-	-	-	23,847	23,847
Volunteer Fire Dept	-	-	-	610,493	610,493
Culture and recreation	-	-	-	168	168
Total restricted	-	2,368,841	7,091,296	1,231,508	10,691,645
Committed					
Street resurfacing	-	-	-	30,261	30,261
Total committed	-	-	-	30,261	30,261
Assigned					
Social Security	104,356	-	-	-	104,356
Advertising	19,280	-	-	-	19,280
Planning and zoning	68,379	-	-	-	68,379
Armory	76,168	-	-	-	76,168
Building improvements	221,218	-	-	-	221,218
Streets	526,344	-	-	-	526,344
Public safety	63,840	-	-	-	63,840
Health and welfare	-	-	-	-	-
General government	63,850	-	-	-	63,850
Total assigned	1,143,435	-	-	-	1,143,435
Unassigned	919,091	-	-	-	919,091
Total Fund Balance	<u>\$ 2,072,847</u>	<u>\$ 2,368,841</u>	<u>\$ 7,091,296</u>	<u>\$ 1,261,769</u>	<u>\$ 12,794,753</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

The City implement GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement requires the City to record their total OPEB liability on the Statement of Net Position. Liabilities are calculated using the Entry Age actuarial cost method.

A prior period adjustment for \$50,434 was also made due to the prior year work in process and net position being overstated in the governmental funds and understated in the component unit.

Also included was a prior period adjustment of \$508,230 to net position in the proprietary funds due to assets that were placed in service that were not capitalized on the books.

As a result, beginning net position has been restated as of January 1, 2018 as follows

	Governmental Activities	Business Type Activities	Total	Component Unit
Net position, January 1, 2018, as previously reported	\$ 19,097,070	\$ 15,883,038	\$ 34,980,108	\$ 2,142,566
Restatement for OPEB Accounting				
Net OPEB liability	(77,601)	(33,589)	(111,190)	-
Net deferred outflows/inflows of resources	8,950	3,875	12,825	-
Airport Work in Process	(50,434)	-	(50,434)	50,434
Electric Equipment	-	508,230	508,230	-
Prior Period Adjustment	(119,085)	478,516	359,431	50,434
Net position, January 1, 2018, as restated	<u>\$ 18,977,985</u>	<u>\$ 16,361,554</u>	<u>\$ 35,339,539</u>	<u>\$ 2,193,000</u>

NOTE 12 - NEW PRONOUNCEMENTS

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.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

NOTE 13 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through July 2, 2019, which is the date these financial statements were available to be issued.

CITY OF GRAFTON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 671,910	\$ 671,910	\$ 630,436	\$ (41,474)
Special assessments	6,500	6,500	9,341	2,841
Licenses and permits	126,550	126,550	125,414	(1,136)
Intergovernmental	594,875	610,299	641,011	30,712
Charges for services	3,000	3,000	5,099	2,099
Fines and forfeits	54,000	54,000	48,932	(5,068)
Miscellaneous	33,295	54,820	83,388	28,568
	<u>1,490,130</u>	<u>1,527,079</u>	<u>1,543,621</u>	<u>16,542</u>
TOTAL REVENUES				
	<u>1,490,130</u>	<u>1,527,079</u>	<u>1,543,621</u>	<u>16,542</u>
EXPENDITURES				
General government	528,190	528,190	507,465	20,725
Public safety	1,060,940	1,060,940	1,031,918	29,022
Highways and streets	584,425	584,425	448,281	136,144
Health and welfare	4,055	20,695	20,646	49
Other	63,885	94,157	79,230	14,927
Capital outlay	266,700	266,700	82,526	184,174
Debt service-principal	-	-	24,500	(24,500)
	<u>2,508,195</u>	<u>2,555,107</u>	<u>2,194,566</u>	<u>360,541</u>
TOTAL EXPENDITURES				
	<u>2,508,195</u>	<u>2,555,107</u>	<u>2,194,566</u>	<u>360,541</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,018,065)</u>	<u>(1,028,028)</u>	<u>(650,945)</u>	<u>377,083</u>
OTHER SOURCES (USES)				
Proceeds from sale of capital assets	-	-	3,948	3,948
Transfer from other funds	835,000	835,000	867,739	32,739
Transfer to other funds	-	-	(5,885)	(5,885)
	<u>835,000</u>	<u>835,000</u>	<u>865,802</u>	<u>30,802</u>
TOTAL OTHER SOURCES (USES)				
	<u>835,000</u>	<u>835,000</u>	<u>865,802</u>	<u>30,802</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (183,065)</u>	<u>\$ (193,028)</u>	<u>214,857</u>	<u>\$ 407,885</u>
FUND BALANCE - JANUARY 1			<u>1,857,990</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 2,072,847</u>	

See Note to the Budgetary Comparison Schedules

CITY OF GRAFTON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 850,000	\$ 850,000	\$ 899,492	\$ 49,492
Special assessments	56,970	56,970	52,880	(4,090)
Intergovernmental	350	350	342	(8)
Loan Repayments	18,966	18,966	-	(18,966)
Miscellaneous	79,305	79,305	97,908	18,603
	<u>1,005,591</u>	<u>1,005,591</u>	<u>1,050,622</u>	<u>45,031</u>
TOTAL REVENUES				
	<u>1,005,591</u>	<u>1,005,591</u>	<u>1,050,622</u>	<u>45,031</u>
EXPENDITURES				
Other	<u>770,610</u>	<u>770,610</u>	<u>511,951</u>	<u>258,659</u>
TOTAL EXPENDITURES	<u>770,610</u>	<u>770,610</u>	<u>511,951</u>	<u>258,659</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	234,981	234,981	538,671	303,690
OTHER SOURCES (USES)				
Transfer to other funds	<u>(258,410)</u>	<u>(408,410)</u>	<u>(411,018)</u>	<u>(2,608)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (23,429)</u>	<u>\$ (173,429)</u>	<u>127,653</u>	<u>\$ 301,082</u>
FUND BALANCE - JANUARY 1			<u>2,241,188</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 2,368,841</u>	

See Note to the Budgetary Comparison Schedules

CITY OF GRAFTON, NORTH DAKOTA
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
DECEMBER 31, 2018

NOTE 1 BUDGETS

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

The preliminary budget shall set forth specifically:

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

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF EMPLOYERS SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

For the Fiscal Year Ended June 31	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.155439%	\$ 2,623,203	\$ 1,596,853	164.27%	62.80%
2017	0.148967%	2,394,389	1,520,716	157.45%	61.98%
2016	0.151409%	1,475,628	1,525,846	96.71%	70.46%
2015	0.146746%	997,849	1,307,327	76.33%	77.15%

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

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

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
LAST 10 YEARS

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 116,997	\$ 116,997	\$ -	\$ 1,643,211	7.12%
2017	112,789	112,789	-	1,584,109	7.12%
2016	109,533	109,533	-	1,538,381	7.12%
2015	102,973	102,973	-	1,446,251	7.12%

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

The amounts presented for each year were determined as of the City's year end which is December 31.

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF SHARE OF THE OPEB LIABILITY
AS OF DECEMBER 31, 2018

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.145936%	\$ 114,935	\$ 1,596,853	7.20%	61.89%

The amounts presented for each fiscal year were determined as of the measurement date of the City's other postemployment benefit liability which is June 30 of the previous fiscal year.

The City implemented GASB Statement No. 75 for its year ended December 31, 2018. Information for the prior years is not available.

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF CONTRIBUTIONS TO OPEB PLAN
AS OF DECEMBER 31, 2018

<u>Fiscal Year Ended December 31</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2018	\$ 18,733	\$ 18,733	\$ -	\$ 1,643,211	1.14%

The amounts presented for each year were determined as of the City's year end which is December 31.

The City implemented GASB Statement No. 75 for its year ended December 31, 2018. Information for the prior years is not available.

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

NOTE 1 CHANGES OF ASSUMPTIONS

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Non major Governmental Funds</u>
Assets				
Cash	\$ 425,857	\$ 121,298	\$ 30,261	\$ 577,416
Investments	325,962	350,000	-	675,962
Taxes receivable	1,116	3,541	-	4,657
Special assessments receivable	-	112,150	-	112,150
Interest receivable	376	5,860	-	6,236
Due from other governments	<u>1,753</u>	<u>5,551</u>	<u>-</u>	<u>7,304</u>
Total Assets	<u>\$ 755,064</u>	<u>\$ 598,400</u>	<u>\$ 30,261</u>	<u>\$ 1,383,725</u>
Liabilities				
Accounts payable	<u>\$ 4,649</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 5,149</u>
Total liabilities	<u>4,649</u>	<u>500</u>	<u>-</u>	<u>5,149</u>
Deferred Inflows of Resources				
Unavailable revenue- property taxes	1,116	3,541	-	4,657
Uncertified special assessments	<u>-</u>	<u>112,150</u>	<u>-</u>	<u>112,150</u>
Total deferred inflows of resources	<u>1,116</u>	<u>115,691</u>	<u>-</u>	<u>116,807</u>
Fund Balance				
Restricted	749,299	482,209	-	1,231,508
Unrestricted				
Committed	<u>-</u>	<u>-</u>	<u>30,261</u>	<u>30,261</u>
Total fund balance	<u>749,299</u>	<u>482,209</u>	<u>30,261</u>	<u>1,261,769</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 755,064</u>	<u>\$ 598,400</u>	<u>\$ 30,261</u>	<u>\$ 1,383,725</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Non major Governmental Funds
Revenues				
Taxes	\$ 33,014	\$ 276,279	\$ -	\$ 309,293
Special assessments	-	50,117	-	50,117
Intergovernmental	1,024	3,236	-	4,260
Other	382,336	10,280	-	392,616
Total revenues	<u>416,374</u>	<u>339,912</u>	<u>-</u>	<u>756,286</u>
Expenditures				
Current				
General government	29,317	-	-	29,317
Public safety	348,040	-	-	348,040
Other	4,649	52,292	-	56,941
Debt Service:				
Principal	-	293,756	-	293,756
Interest	-	389,284	-	389,284
Total expenditures	<u>382,006</u>	<u>735,332</u>	<u>-</u>	<u>1,117,338</u>
Excess Revenues Over (Under) Expenditures	34,368	(395,420)	-	(361,052)
Other Financing Sources (Uses)				
Operating transfers in	-	411,018	-	411,018
Operating transfers (out)	-	(26,854)	-	(26,854)
Total other financing sources (uses)	<u>-</u>	<u>384,164</u>	<u>-</u>	<u>384,164</u>
Excess Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	<u>34,368</u>	<u>(11,256)</u>	<u>-</u>	<u>23,112</u>
Fund Balance - January 1	<u>714,931</u>	<u>493,465</u>	<u>30,261</u>	<u>1,238,657</u>
Fund Balance - December 31	<u>\$ 749,299</u>	<u>\$ 482,209</u>	<u>\$ 30,261</u>	<u>\$ 1,261,769</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2018

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Volunteer Fire</u>	<u>Total</u>
Assets								
Cash	\$ 8,291	\$ 42,384	\$ 44,652	\$ 19,812	\$ 168	\$ 1,019	\$ 309,531	\$ 425,857
Investments	-	25,000	-	-	-	-	300,962	325,962
Taxes receivable	-	863	-	253	-	-	-	1,116
Interest receivable	-	376	-	-	-	-	-	376
Due from other governments	-	1,360	-	393	-	-	-	1,753
Total Assets	<u>\$ 8,291</u>	<u>\$ 69,983</u>	<u>\$ 44,652</u>	<u>\$ 20,458</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 610,493</u>	<u>\$ 755,064</u>
Liabilities								
Accounts payable	\$ -	\$ -	\$ -	\$ 4,649	\$ -	\$ -	\$ -	\$ 4,649
Deferred Inflows of Resources								
Unavailable revenue- property taxes	-	863	-	253	-	-	-	1,116
Fund Balance								
Restricted	<u>8,291</u>	<u>69,120</u>	<u>44,652</u>	<u>15,556</u>	<u>168</u>	<u>1,019</u>	<u>610,493</u>	<u>749,299</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 8,291</u>	<u>\$ 69,983</u>	<u>\$ 44,652</u>	<u>\$ 20,458</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 610,493</u>	<u>\$ 755,064</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Volunteer Fire</u>	<u>Total</u>
Revenues								
Taxes	\$ -	\$ 12,597	\$ 16,760	\$ 3,657	\$ -	\$ -	\$ -	\$ 33,014
Intergovernmental	-	794	-	230	-	-	-	1,024
Other	131	2,335	589	312	-	-	378,969	382,336
Total revenues	131	15,726	17,349	4,199	-	-	378,969	416,374
Expenditures								
Current								
General government	-	10,317	19,000	-	-	-	-	29,317
Public safety	-	-	-	-	-	-	348,040	348,040
Other	-	-	-	4,649	-	-	-	4,649
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	-	10,317	19,000	4,649	-	-	348,040	382,006
Excess Revenues Over (Under)								
Expenditures	131	5,409	(1,651)	(450)	-	-	30,929	34,368
Fund Balance - January 1	8,160	63,711	46,303	16,006	168	1,019	579,564	714,931
Fund Balance - December 31	<u>\$ 8,291</u>	<u>\$ 69,120</u>	<u>\$ 44,652</u>	<u>\$ 15,556</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 610,493</u>	<u>\$ 749,299</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
AS OF DECEMBER 31, 2018

	2008-B	2008-A Sales Tax Revenue Bonds	2012 General Obligation	2015 Refunding Bond Sales Tax	2018 Refunding Bond Series 2018A	Total
Assets						
Cash	\$ -	\$ 111,861	\$ 9,437	\$ -	\$ -	\$ 121,298
Investments	-	50,000	300,000	-	-	350,000
Taxes receivable	-	-	3,541	-	-	3,541
Special assessments receivable	-	-	112,150	-	-	112,150
Interest receivable	-	752	5,108	-	-	5,860
Due from other governments	-	-	5,551	-	-	5,551
Total Assets	<u>\$ -</u>	<u>\$ 162,613</u>	<u>\$ 435,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 598,400</u>
Liabilities						
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>
Deferred Inflows of Resources						
Unavailable revenue-property taxes			3,541	-	-	3,541
Uncertified special assessments	-	-	112,150	-	-	112,150
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>115,691</u>	<u>-</u>	<u>-</u>	<u>115,691</u>
Fund Balance						
Restricted	-	162,613	319,596	-	-	482,209
Total fund balance	<u>-</u>	<u>162,613</u>	<u>319,596</u>	<u>-</u>	<u>-</u>	<u>482,209</u>
Total Deferred Inflows of Resources and Fund Balance	<u>\$ -</u>	<u>\$ 162,613</u>	<u>\$ 435,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 598,400</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2008-B	2017 Definitive Warrant	2008-A Sales Tax Revenue Bonds	2012 General Obligation	2015 Refunding Bond Sales Tax	2018 Refunding Bond Series 2018A	Total
Revenues:							
Real estate taxes	\$ -	\$ -	\$ -	\$ 51,405	\$ -	\$ -	\$ 51,405
Sales taxes	-	-	224,874	-	-	-	224,874
Special assessments	19,480	-	-	30,637	-	-	50,117
Intergovernmental	-	-	-	3,236	-	-	3,236
Other	460	-	3,983	5,782	55	-	10,280
Total revenues	19,940	-	228,857	91,060	55	-	339,912
Expenditures:							
Other	-	-	52,292				52,292
Debt Service:							
Principal	20,000	103,756	55,000	90,000	25,000	-	293,756
Interest	370	50,032	100,838	5,740	82,308	149,996	389,284
Total expenditures	20,370	153,788	208,130	95,740	107,308	149,996	735,332
Excess of Revenues Over (Under) Expenditures Before Other Financing Sources	(430)	(153,788)	20,727	(4,680)	(107,253)	(149,996)	(395,420)
Other Financing Sources (Uses)							
Operating transfer in	-	153,788	-	-	107,234	149,996	411,018
Operating transfer out	(26,854)	-	-	-	-	-	(26,854)
Total Other Financing Sources (uses)	(26,854)	153,788	-	-	107,234	149,996	384,164
Excess of Revenues over (under) Expenditures	(27,284)	-	20,727	(4,680)	(19)	-	(11,256)
Fund Balance (Deficit), January 1	27,284	-	141,886	324,276	19	-	493,465
Fund Balance (Deficit), December 31	\$ -	\$ -	\$ 162,613	\$ 319,596	\$ -	\$ -	\$ 482,209

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
AS OF DECEMBER 31, 2018

	<u>Urban Roads</u>
Assets:	
Cash	\$ 30,261
TOTAL ASSETS	<u><u>\$ 30,261</u></u>
 Liabilities:	
Total liabilities	<u>\$ -</u>
 Fund Balance:	
Committed	<u>30,261</u>
Total fund balance	<u>30,261</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 30,261</u></u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Urban Roads
Revenues:	
Total revenues	\$ -
Expenditures	
Professional fees	-
Capital outlay	-
Total expenditures	-
Revenues Over (Under)	
Expenditures Before	
Other Financing	
Sources	-
Other Financing Sources (Uses)	
Transfers in	-
Excess Revenues and Other	
Financing Sources Over	
(Under) Expenditures	-
Fund Balance (Deficit),	
January 1	30,261
Fund Balance (Deficit),	
December 31	\$ 30,261

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET – COMPONENT UNITS
AS OF DECEMBER 31, 2018

	<u>Airport Authority</u>
ASSETS	
Cash and cash equivalents	\$ 72,126
Investments	50,000
Receivables:	
Grants	80,247
Taxes	1,739
Due from other governments	2,721
Prepaid insurance	838
TOTAL ASSETS	<u><u>\$ 207,671</u></u>
 LIABILITIES	
Liabilities	
Accounts payable	\$ 12,586
Total liabilities	<u>12,586</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue-property taxes	<u>1,739</u>
 FUND BALANCE	
Restricted	<u>193,346</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 207,671</u></u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Airport Authority</u>
Revenues	
Taxes	\$ 25,228
Intergovernmental	444,139
Other	<u>26,370</u>
Total revenues	<u>495,737</u>
 Expenditures	
Current	
Other	76,119
Capital Outlay	<u>405,473</u>
Total expenditures	<u>481,592</u>
 Excess Revenues and Other Financing Sources Over (Under) Expenditures	 14,145
 Fund Balance, January 1	 <u>179,201</u>
 Fund Balance, December 31	 <u><u>\$ 193,346</u></u>

**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**

Mayor and Council Members of
the City Council
City of Grafton, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 2, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of finding and response as 2018-01 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grafton, North Dakota'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 that are required to be reported under *Government Auditing Standards*.

City's Response to Finding

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

Purpose of this Report

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



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

July 2, 2019

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF FINDING AND RESPONSE
AS OF DECEMBER 31, 2018

Control Deficiency 2018-001 – Material Weakness

Criteria:

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

Condition:

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited in accordance with accounting principles generally accepted in the United States of America

Effect:

The City's auditors prepared the financial statements as of December 31, 2018. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of American (GAAP). This circumstance is not unusual for a City of Grafton's size.

Recommendation:

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

Response:

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

July 2, 2019

To the Mayor and City Council
City of Grafton
Grafton, North Dakota

We have audited the financial statements of the governmental activities, business type activities, aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Grafton for the year ended December 31, 2018, and have issued our report thereon dated July 2, 2019. 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 January 8, 2019. 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 Grafton are described in Note 1 to the financial statements. As described in Note 11 to the financial statements, the City changed accounting policies related to accounting and financial reporting for other postemployment benefits by adopting Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. We noted no transactions entered into by City of Grafton 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 basic 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. The most sensitive estimates affecting the financial statements were:

Management's estimates include assumptions used in determining the net position liability for cost sharing defined benefit plans. We evaluated the key factors and assumptions used to determine future liabilities for defined benefit plans in determining that they are reasonable in relation to the financial statements taken as a whole. Management's estimate of its actuarially calculated pension liability is based on several factors including, but not limited to anticipated investment return rate, retirement age for

active employees, life expectancy, salary increases, and form of annuity payment upon retirement.

Management's estimate of its actuarially calculated OPEB liability is based on several factors including but not limited to, anticipated investment return rate, retirement age for active employees, and life expectancy. We evaluated the key factors and assumptions used to determine future liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We experienced no difficulties in dealing with management relating to the performance of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule I summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The material misstatements in the attached schedule II detected as a result of audit procedures were 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 July 2, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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 Grafton's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison information, schedule of employers share of net pension liability, schedule of employer pension contributions, schedule of share of the OPEB liability, schedule of contributions to OPEB plan and notes to required supplementary information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining non major fund and combining component unit financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the roster of officials, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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



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

Client: **89451 - City of Grafton**
Engagement: **City of Grafton, North Dakota**
Period Ending: **12/31/2018**
Trial Balance: **TB**
Workpaper: **2200.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		7000.01		
To record grant receivables noted by client, but not recorded				
100-1060-0000-	Grant Receivable		1,406.00	
228-1060-0000-	GRANT RECEIVABLE		1,675.00	
100-3310-3300-	FEDERAL GRANTS			1,406.00
228-3311-3300-	STATE GRANTS			1,675.00
Total			3,081.00	3,081.00

Adjusting Journal Entries JE # 2		PBC		
Provided by Client: to record line relocation for flood diversion				
601-1624-0000-	TRANSMISSION SYSTEM		508,229.59	
601-2950-0000-	RET. EARNINGS - NONDESIGNATED			508,229.59
Total			508,229.59	508,229.59

Adjusting Journal Entries JE # 3		4600.02		
To agree accumulated depreciation to the AK report				
601-4510-4309-	DEPRECIATION-BLDGS/IMPROVEMENT		75.37	
601-4510-4309-	DEPRECIATION-BLDGS/IMPROVEMENT		11,677.86	
601-4520-4309-	DEPRECIATION-EQUIP./FURNITURE		4,328.93	
602-4510-4309-	DEPRECIATION-BLDGS/IMPROVEMENT		933.31	
602-4510-4309-	DEPRECIATION-BLDGS/IMPROVEMENT		2,974.20	
602-4520-4309-	DEPRECIATION-EQUIP./FURNITURE		660.09	
603-4510-4309-	DEPRECIATION-BLDGS/IMPROVEMENT		1,216.74	
603-4520-4309-	DEPRECIATION-EQUIP./FURNITURE		4,703.30	
604-4520-4309-	DEPRECIATION-EQUIP./FURNITURE		119.96	
601-1623-0000-	ACCUMULATED DEPR/BLDG&IMPROVMT			75.37
601-1625-0000-	ACCUM DEPR/TRANSMISSION SYSTEM			11,677.86
601-1627-0000-	ACCUMULATED DEPR/EQUIP & FURN			4,328.93
602-1623-0000-	ACCUMULATED DEPR/BLDG&IMPROVMT			2,974.20
602-1625-0000-	ACCUM DEPR/TRANSMISSION SYSTEM			933.31
602-1627-0000-	ACCUMULATED DEPR/EQUIP & FURN			660.09
603-1625-0000-	ACCUM DEPR/TRANSMISSION SYSTEM			1,216.74
603-1627-0000-	ACCUMULATED DEPR/EQUIP & FURN			4,703.30
604-1627-0000-	ACCUMULATED DEPR/EQUIP & FURN			119.96
Total			26,689.76	26,689.76

Adjusting Journal Entries JE # 4		5205.00		
To adjust for pension liability changes				
601-1800-0000-0000	DEFERRED OUTFLOW-COST SHARING		17,003.64	

Client: **89451 - City of Grafton**
Engagement: **City of Grafton, North Dakota**
Period Ending: **12/31/2018**
Trial Balance: **TB**
Workpaper: **2200.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
601-4230-4303-0000 RETIREMENT			57,094.03	
602-1800-0000-0000 DEFERRED OUTFLOW-COST SHARING			2,103.70	
602-4230-4303-0000 RETIREMENT			31,114.28	
603-1800-0000-0000 DEFERRED OUTFLOW-COST SHARING			2,337.54	
603-4230-4303-0000 RETIREMENT			15,834.42	
701-4230-4303-0000 RETIREMENT			7,271.40	
601-2600-0000-0000 DEFERRED INFLOW-COST SHARING				9,837.15
601-2610-0000-0000 NET PENSION LIABILITY				64,260.52
602-2600-0000-0000 DEFERRED INFLOW-COST SHARING				6,938.78
602-2610-0000-0000 NET PENSION LIABILITY				26,279.20
603-2600-0000-0000 DEFERRED INFLOW-COST SHARING				3,252.13
603-2610-0000-0000 NET PENSION LIABILITY				14,919.83
701-1800-0000-0000 DEFERRED OUTFLOW-COST SHARING				19.55
701-2600-0000-0000 DEFERRED INFLOW-COST SHARING				1,734.20
701-2610-0000-0000 NET PENSION LIABILITY				5,517.65
Total			132,759.01	132,759.01
Adjusting Journal Entries JE # 5				
		6000.02 and GL		
To correct entry for truck portion transferred from General Fund to Wastewater and to record General Fund side of entry.				
603-2950-0000-0000 RET. EARNINGS - NONDESIGNATED			18,515.17	
603-3460-3400-0000 AMOUNT DONATED				18,515.17
Total			18,515.17	18,515.17
Adjusting Journal Entries JE # 6				
		6000.02 and GL		
To correct transfer of fund balance from fund 318 to fund 100 (Wanda, this is not necessary to post on your end)				
100-2975-0000-0000 FUND BALANCE - NONDESIGNATED			26,854.18	
318-4890-5180-0000 TRANSFER TO OTHER FUNDS			26,854.18	
100-3922-3900-0000 TRANSFER FROM OTHER FUNDS				26,854.18
318-2975-0000-0000 FUND BALANCE - NONDESIGNATED				26,854.18
Total			53,708.36	53,708.36
Adjusting Journal Entries JE # 7				
		5205.00		
To record GASB 75 - OPEB				
601-1801-0000-000 Deferred Outflow - OPEB			1,085.58	
601-2601-0000-000 Deferred Inflow - OPEB			202.56	
601-4230-4303-0000 RETIREMENT			717.25	
602-1801-0000-000 Deferred Outflow - OPEB			685.93	
602-2601-0000-000 Deferred Inflow - OPEB			251.85	
603-1801-0000-000 Deferred Outflow - OPEB			332.39	
603-2601-0000-000 Deferred Inflow - OPEB			103.15	
701-1801-0000-000 Deferred Outflow - OPEB			167.03	
701-2601-0000-000 Deferred Inflow - OPEB			68.95	
601-2611-0000-000 OPEB Liability				2,005.39
602-2611-0000-000 OPEB Liability				393.95
602-4230-4303-0000 RETIREMENT				543.82
603-2611-0000-000 OPEB Liability				324.11
603-4230-4303-0000 RETIREMENT				111.43
701-2611-0000-000 OPEB Liability				42.19
701-4230-4303-0000 RETIREMENT				193.80
Total			3,614.69	3,614.69
Adjusting Journal Entries JE # 8				
		5205.00		

Client: **89451 - City of Grafton**
Engagement: **City of Grafton, North Dakota**
Period Ending: **12/31/2018**
Trial Balance: **TB**
Workpaper: **2200.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
PP Adjustment - Recognize begininning OPEB Liab				
601-1801-0000-000	Deferred Outflow - OPEB		2,546.63	
601-9999	PPAJE		12,688.97	
602-1801-0000-000	Deferred Outflow - OPEB		2,380.95	
602-9999	PPAJE		11,863.44	
603-1801-0000-000	Deferred Outflow - OPEB		1,036.03	
603-9999	PPAJE		5,162.17	
701-1801-0000-000	Deferred Outflow - OPEB		627.30	
701-9999	PPAJE		3,125.64	
601-2601-0000-000	Deferred Inflow - OPEB			892.16
601-2611-0000-000	OPEB Liability			14,343.44
602-2601-0000-000	Deferred Inflow - OPEB			834.12
602-2611-0000-000	OPEB Liability			13,410.27
603-2601-0000-000	Deferred Inflow - OPEB			362.95
603-2611-0000-000	OPEB Liability			5,835.24
701-2601-0000-000	Deferred Inflow - OPEB			219.76
701-2611-0000-000	OPEB Liability			3,533.19
Total			39,431.13	39,431.13
Adjusting Journal Entries JE # 9				
		5105.00		
set up additional payables				
228-1060-0000-0000	GRANT RECEIVABLE		5,812.10	
228-4630-4365-0000	IMPROVEMENTS OTHER THAN BLDGS.		6,118.00	
428-1060-0000-0000	GRANT RECEIVABLE		61,449.20	
428-1060-0000-0000	GRANT RECEIVABLE		409,873.52	
428-4670-6187-0000	CONSTRUCTION		81,932.27	
428-4670-6187-0000	CONSTRUCTION		409,873.52	
228-2000-0000-0000	ACCOUNTS PAYABLE			6,118.00
228-3310-3300-0000	FEDERAL GRANTS			5,812.10
428-2000-0000-0000	ACCOUNTS PAYABLE			81,932.27
428-2000-0000-0000	ACCOUNTS PAYABLE			409,873.52
428-3311-3300-0000	STATE GRANTS			61,449.20
428-3311-3300-0000	STATE GRANTS			409,873.52
Total			975,058.61	975,058.61

Client: **89451 - City of Grafton**
Engagement: **City of Grafton, North Dakota**
Period Ending: **12/31/2018**
Trial Balance: **TB**
Workpaper: **2210.00 - Passed adjustments**

Account	Description	W/P Ref	Debit	Credit
Passed adjustments JE # 211		2305.03		
To record Pension Liability for Fire Department				
BMA-200	Net position-government wide		31,400.00	
BMA-300	Pension expense		1,200.00	
BMA -100	Pension payable Fire			32,600.00
Total			32,600.00	32,600.00
	NONE			