

**CITY OF RUGBY  
RUGBY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Position - Modified Cash Basis	3
Statement of Activities - Modified Cash Basis	4
Fund Financial Statements	
Balance Sheet - Governmental Funds - Modified Cash Basis	5
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position - Modified Cash Basis	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Modified Cash Basis	7
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the Government-Wide Statement of Activities - Modified Cash Basis	8
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund - Modified Cash Basis	9
Statement of Net Position - Proprietary Funds - Modified Cash Basis	10
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds - Modified Cash Basis	11
Statement of Cash Flows - Proprietary Funds - Modified Cash Basis	12
Statement of Assets and Liabilities - Fiduciary Funds - Modified Cash Basis	13
Notes to the Financial Statements	14
<b>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</b>	<b>38</b>
Schedule of Findings and Responses	40

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Rugby  
Rugby, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of and for the year ended December 31, 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 the modified cash basis of accounting described in Note 2: this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of December 31, 2018, and the respective changes in modified cash basis financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the modified cash basis of accounting described in Note 2.

### **Basis of Accounting**

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

### **Emphasis of Matter**

As described in Note 18 to the financial statements, the City has retroactively restated the previous reported net position relating to the component unit. Our opinions are not modified with respect to this matter.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the City of Rugby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rugby's internal control over financial reporting and compliance.



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

November 26, 2019

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rugby Job Development Authority
<b>ASSETS</b>				
Cash and equivalents	\$ 2,251,180	\$ 1,496,814	\$ 3,747,994	\$ 290,005
Investments	22,390	-	22,390	172,942
Land held for resale	-	-	-	639,448
Notes receivable	-	-	-	9,000
Other assets	-	-	-	10,302
Capital assets				
Land, improvements, and construction in progress not being depreciated	237,332	990,160	1,227,492	-
Buildings and infrastructure, net of depreciation	7,735,155	2,593,390	10,328,545	645,696
Equipment and vehicles, net of depreciation	446,929	91,339	538,268	-
Intangible assets, net of amortization	-	-	-	3,318
Total assets	<u>10,692,986</u>	<u>5,171,703</u>	<u>15,864,689</u>	<u>1,770,711</u>
<b>LIABILITIES</b>				
Current liabilities				
Due within one year				
Bonds and notes	435,000	55,000	490,000	38,825
Long-term liabilities				
Due in more than one year				
Bonds and notes	3,898,700	568,603	4,467,303	267,470
Total liabilities	<u>4,333,700</u>	<u>623,603</u>	<u>4,957,303</u>	<u>306,295</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,085,716	3,051,286	7,137,002	388,628
Restricted for:				
Capital projects	841,266	-	841,266	-
Debt service	624,070	-	624,070	-
Other purposes	347,559	-	347,559	-
Unrestricted	460,675	1,496,814	1,957,489	1,075,788
Total net position	<u>\$ 6,359,286</u>	<u>\$ 4,548,100</u>	<u>\$ 10,907,386</u>	<u>\$ 1,464,416</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 474,508	\$ 63,959	\$ -	\$ -	\$ (410,549)	\$ -	\$ (410,549)
Public safety	481,271	249	-	-	(481,022)	-	(481,022)
Public works	849,130	78,769	54,838	-	(715,523)	-	(715,523)
Urban and economic development	57,606	-	-	-	(57,606)	-	(57,606)
Culture and recreation	175,828	56,537	-	-	(119,291)	-	(119,291)
Interest and other charges	104,707	-	-	-	(104,707)	-	(104,707)
Loss on sale of asset	35,162	-	-	-	(35,162)	-	(35,162)
Total governmental activities	<u>2,178,212</u>	<u>199,514</u>	<u>54,838</u>	<u>-</u>	<u>(1,923,860)</u>	<u>-</u>	<u>(1,923,860)</u>
Business-type activities							
Water operating	740,991	973,624	-	427,957	-	660,590	660,590
Sanitation sewer operations	75,967	296,693	-	-	-	220,726	220,726
Garbage	291,436	303,733	-	-	-	12,297	12,297
Total business-type activities	<u>1,108,394</u>	<u>1,574,050</u>	<u>-</u>	<u>427,957</u>	<u>-</u>	<u>893,613</u>	<u>893,613</u>
Total primary government	<u>\$ 3,286,606</u>	<u>\$ 1,773,564</u>	<u>\$ 54,838</u>	<u>\$ 427,957</u>	<u>\$ (1,923,860)</u>	<u>\$ 893,613</u>	<u>\$ (1,030,247)</u>
<b>Component Units</b>							
Job Development Authority	334,622	\$ 61,050	\$ -	\$ -			\$ (273,572)
Total component units	<u>\$ 334,622</u>	<u>\$ 61,050</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ (273,572)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 754,215	\$ -	\$ 754,215
Property taxes, levied for specific purposes					456,182	-	456,182
Municipal highway tax					183,580	-	183,580
State aid distribution					207,751	-	207,751
Sales tax collections					450,130	-	450,130
Other taxes					7,996	-	7,996
Unrestricted investment earnings					4,620	-	4,620
Other revenue					182,900	-	182,900
Gain (loss) on sale of asset					-	-	-
Total general revenues, special items, and transfers					<u>2,247,374</u>	<u>-</u>	<u>2,247,374</u>
Change in net position					323,514	893,613	1,217,127
Net position - beginning					6,035,772	3,654,487	9,690,259
Prior period adjustment - see Note 18					-	-	-
Net position - beginning, as restated					<u>6,035,772</u>	<u>3,654,487</u>	<u>9,690,259</u>
Net position - ending					<u>\$ 6,359,286</u>	<u>\$ 4,548,100</u>	<u>\$ 10,907,386</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS –**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2018**

	General Fund	Highway and Streets	District 2017-1 Debt Service	Infrastructure Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 542,676	\$ 51,467	\$ 45,177	\$ 697,087	\$ 914,772	\$ 2,251,179
Investments	-	-	-	-	22,390	22,390
Due from other funds	-	-	-	-	1,702	1,702
Total assets	<u>\$ 542,676</u>	<u>\$ 51,467</u>	<u>\$ 45,177</u>	<u>\$ 697,087</u>	<u>\$ 938,864</u>	<u>\$ 2,275,271</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Due to other funds	-	-	-	-	1,702	1,702
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,702</u>	<u>1,702</u>
Fund balances:						
Restricted	\$ -	\$ 51,467	\$ 45,177	\$ 697,087	\$ 1,019,164	\$ 1,812,895
Unassigned	542,676	-	-	-	(82,002)	460,674
Total fund balances	<u>542,676</u>	<u>51,467</u>	<u>45,177</u>	<u>697,087</u>	<u>937,162</u>	<u>2,273,569</u>
Total liabilities and fund balances	<u>\$ 542,676</u>	<u>\$ 51,467</u>	<u>\$ 45,177</u>	<u>\$ 697,087</u>	<u>\$ 938,864</u>	<u>\$ 2,275,271</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2018**

Total fund balance, governmental funds	\$	2,273,569
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital Assets	\$ 14,127,429	
Accumulated Depreciation	<u>(5,708,012)</u>	8,419,417

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

Bonds and notes payable, net of unamortized bond discounts		<u>(4,333,700)</u>
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Net position of governmental activities in the Statement of Net Position	\$	<u><u>6,359,286</u></u>
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See Notes To The Financial Statements



**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Highways and Streets	District 2017-1 Debt Service	Infrastructure Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes and special assessments	\$ 698,165	\$ -	\$ 155,867	\$ -	\$ 356,365	\$ 1,210,397
Sales and miscellaneous taxes	7,996	183,580	-	450,130	-	641,706
Fees and fines	19,901	-	-	-	56,921	76,822
Licenses and permits	15,485	-	-	-	-	15,485
Intergovernmental	207,751	-	-	54,838	-	262,589
Charges for services	29,785	-	-	21,848	55,574	107,207
Investment earnings	4,497	-	-	-	122	4,619
Other revenue	52,689	69,183	-	-	61,028	182,900
Total revenues	<u>1,036,269</u>	<u>252,763</u>	<u>155,867</u>	<u>526,816</u>	<u>530,010</u>	<u>2,501,725</u>
<b>Expenditures</b>						
<b>Current:</b>						
General government	354,772	-	-	-	30,265	385,037
Public safety	465,023	-	-	-	450	465,473
Public works	5,813	295,541	-	-	-	301,354
Urban and economic development	-	-	-	-	57,606	57,606
Culture and recreation	55,659	-	-	-	121,445	177,104
<b>Debt service:</b>						
Principal	10,098	-	250,000	-	159,997	420,095
Interest and other charges	322	-	56,865	-	54,024	111,211
Capital outlay	-	9,900	-	113,505	111,228	234,633
Total expenditures	<u>891,687</u>	<u>305,441</u>	<u>306,865</u>	<u>113,505</u>	<u>535,015</u>	<u>2,152,513</u>
Excess (deficiency) of revenues over expenditures	<u>144,582</u>	<u>(52,678)</u>	<u>(150,998)</u>	<u>413,311</u>	<u>(5,005)</u>	<u>349,212</u>
<b>Other financing sources (uses)</b>						
Transfers in	145,370	200,000	153,000	-	204,864	703,234
Transfers out	(70,007)	(100,000)	-	(522,571)	(10,656)	(703,234)
Total other financing sources and uses	<u>75,363</u>	<u>100,000</u>	<u>153,000</u>	<u>(522,571)</u>	<u>194,208</u>	<u>-</u>
Net change in fund balances	219,945	47,322	2,002	(109,260)	189,203	349,212
Fund balances - beginning	322,731	4,145	43,175	806,347	747,959	1,924,357
Fund balances - ending	<u>\$ 542,676</u>	<u>\$ 51,467</u>	<u>\$ 45,177</u>	<u>\$ 697,087</u>	<u>\$ 937,162</u>	<u>\$ 2,273,569</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances - total governmental funds: \$ 349,212

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

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

Capital outlays	233,011
Depreciation expense	(650,898)

Net effect of trade of capital asset	(35,162)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 420,095

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

Amortization	7,256
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Change in net position of governmental activities	\$ 323,514
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See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual Amounts, Modified Cash Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>			
Taxes and special assessments	\$ 684,099	\$ 698,165	\$ 14,066
Sales and miscellaneous taxes	8,000	7,996	(4)
Fees and fines	13,000	19,901	6,901
Licenses and permits	16,525	15,485	(1,040)
Intergovernmental	199,000	207,751	8,751
Charges for services	4,600	29,785	25,185
Investment earnings	1,400	4,497	3,097
Other revenue	41,400	52,689	11,289
<b>Total revenues</b>	<u>968,024</u>	<u>1,036,269</u>	<u>68,245</u>
<b>Expenditures</b>			
Current:			
General government	375,639	354,772	20,867
Public safety	530,299	465,023	65,276
Public works	6,140	5,813	327
Culture and recreation	43,859	55,659	(11,800)
Debt Service:			
Principal	-	10,098	(10,098)
Interest and other charges	-	322	(322)
Capital outlay	68,000	-	68,000
<b>Total expenditures</b>	<u>1,023,937</u>	<u>891,687</u>	<u>132,250</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(55,913)</u>	<u>144,582</u>	<u>200,495</u>
<b>Other financing sources (uses)</b>			
Transfers in	145,214	145,370	156
Transfers out	(68,900)	(70,007)	(1,107)
<b>Total other financing sources and uses</b>	<u>76,314</u>	<u>75,363</u>	<u>(951)</u>
<b>Net change in fund balances</b>	20,401	219,945	199,544
Fund balances - beginning	322,731	322,731	153,426
<b>Fund balances - ending</b>	<u>\$ 343,132</u>	<u>\$ 542,676</u>	<u>\$ 352,970</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2018**

	Water Operating	Sanitation Sewer Operations	Garbage	Other Enterprise Funds	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 861,206	\$ 294,494	\$ 51,030	\$ 290,084	\$ 1,496,814
Total current assets	<u>861,206</u>	<u>294,494</u>	<u>51,030</u>	<u>290,084</u>	<u>1,496,814</u>
Non-current assets:					
Capital assets:					
Land and improvements	52,420	-	-	-	52,420
Construction in progress	937,740	-	-	-	937,740
Buildings and infrastructure	4,480,054	14,592	-	-	4,494,646
Equipment and vehicles	249,042	172,437	-	-	421,479
Less accumulated depreciation	(2,150,607)	(80,789)	-	-	(2,231,396)
Total non-current assets	<u>3,568,649</u>	<u>106,240</u>	<u>-</u>	<u>-</u>	<u>3,674,889</u>
Total assets	<u>4,429,855</u>	<u>400,734</u>	<u>51,030</u>	<u>290,084</u>	<u>5,171,703</u>
<b>LIABILITIES</b>					
Current liabilities:					
Bonds, notes and loans payable	55,000	-	-	-	55,000
Total current liabilities	<u>55,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,000</u>
Non-current liabilities:					
Bonds, notes and loans payable	568,603	-	-	-	568,603
Total non-current liabilities	<u>568,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>568,603</u>
Total liabilities	<u>623,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,603</u>
<b>NET POSITION</b>					
Net investment in capital assets	2,945,046	106,240	-	-	3,051,286
Unrestricted	861,206	294,494	51,030	290,084	1,496,814
Total net position	<u>\$3,806,252</u>	<u>\$ 400,734</u>	<u>\$ 51,030</u>	<u>\$ 290,084</u>	<u>\$ 4,548,100</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Water Operating	Sanitation Sewer Operations	Garbage	Other Enterprise Funds	Total
Revenues					
Charges for services	\$ 973,623	\$ 238,560	\$ 303,733	\$ 58,133	\$ 1,574,049
Total operating revenues	<u>973,623</u>	<u>238,560</u>	<u>303,733</u>	<u>58,133</u>	<u>1,574,049</u>
Operating expenses					
Water operating	505,434	-	-	-	505,434
Sanitary sewer	-	65,852	-	-	65,852
Garbage	-	-	291,436	-	291,436
Depreciation	225,491	10,115	-	-	235,606
Total operating expenses	<u>730,925</u>	<u>75,967</u>	<u>291,436</u>	<u>-</u>	<u>1,098,328</u>
Operating income (loss)	<u>242,698</u>	<u>162,593</u>	<u>12,297</u>	<u>58,133</u>	<u>475,721</u>
Non-operating revenues (expenses)					
Grant Reimbursement	427,957	-	-	-	427,957
Interest expense	(10,065)	-	-	-	(10,065)
Total non-operating revenues (expenses)	<u>417,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,892</u>
Income before contributions and transfers	<u>660,590</u>	<u>162,593</u>	<u>12,297</u>	<u>58,133</u>	<u>893,613</u>
Transfers in	317,020	-	-	67,000	384,020
Transfers out	(17,000)	(50,000)	-	(317,020)	(384,020)
Total transfers	<u>300,020</u>	<u>(50,000)</u>	<u>-</u>	<u>(250,020)</u>	<u>-</u>
Change in net position	960,610	112,593	12,297	(191,887)	893,613
Total net position - beginning	2,845,642	288,141	38,733	481,971	3,654,487
Total net position - ending	<u>\$ 3,806,252</u>	<u>\$ 400,734</u>	<u>\$ 51,030</u>	<u>\$ 290,084</u>	<u>\$ 4,548,100</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Water Fund	Sanitation Sewer Operations	Garbage	Other Enterprise Funds	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 973,623	\$ 238,560	\$303,733	\$ 58,133	\$1,574,049
Payments to suppliers and employees	(505,434)	(65,852)	(291,436)	-	(862,722)
Net cash provided (used) by operating activities	<u>468,189</u>	<u>172,708</u>	<u>12,297</u>	<u>58,133</u>	<u>711,327</u>
Cash flows from non-capital financing activities:					
Federal grants	427,957	-	-	-	427,957
Net cash transfers	300,020	(50,000)	-	(250,020)	-
Net cash provided by noncapital and related financing activities	<u>727,977</u>	<u>(50,000)</u>	<u>-</u>	<u>(250,020)</u>	<u>427,957</u>
Cash flows from capital and related financing activities:					
Proceeds from issuance of long-term debt	246,956	-	-	-	246,956
Repayment of long-term debt	(40,000)	-	-	-	(40,000)
Interest paid on long-term debt	(14,932)	-	-	-	(14,932)
Purchase of capital assets	(872,685)	-	-	-	(872,685)
Net cash used by capital and related financing activities	<u>(680,661)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(680,661)</u>
Net change in cash and cash equivalents	515,505	122,708	12,297	(191,887)	458,623
Cash and cash equivalents, January 1	345,701	171,786	38,733	481,971	1,038,191
Cash and cash equivalents, December 31	<u>\$ 861,206</u>	<u>\$ 294,494</u>	<u>\$ 51,030</u>	<u>\$ 290,084</u>	<u>\$1,496,814</u>
Reconciliation of operating income to net cash from operating activities:					
Operating income	\$ 242,698	\$ 162,593	\$ 12,297	\$ 58,133	\$ 475,721
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	225,491	10,115	-	-	235,606
Net cash provided (used) by operating activities	<u>\$ 468,189</u>	<u>\$ 172,708</u>	<u>\$ 12,297</u>	<u>\$ 58,133</u>	<u>\$ 711,327</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2018**

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

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2018**

**NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

**Reporting Entity**

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

**Rugby Job Development Authority (JDA)**

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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



**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

**Government-wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

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

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

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

**Fund Accounting**

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

*Governmental Funds*

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

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

**Special revenue funds** – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City reports the following major special revenue funds.

*Highway and Streets* - This special revenue fund is used to account for the the Highway tax distribution funds that the City collects. These funds are used to pay for street repairs and maintenance.

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

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

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

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

*Proprietary Funds*

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

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

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

*Sanitation sewer operations* - This fund is used to account for the provisions of sanitation sewer services to the residents of the City.

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

*Fiduciary Funds (not included in government-wide statements)*

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

**Measurement Focus and Basis of Accounting**

*Measurement Focus*

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

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

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

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

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

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

*Basis of Accounting*

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

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

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

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

**Budgets and Budgetary Accounting**

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

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

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

**Cash and Cash Equivalents**

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

**Investments**

Investments are recorded at fair value. North Dakota state statute authorizes Cities to invest their surplus funds in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed, c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) obligations of the state. As of December 31, 2018, all of the City's investments consisted of certificates of deposit with local financial institutions that did not meet the criteria of cash and cash equivalents.

**Land Held for Resale**

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

**Capital Assets**

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

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

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

Buildings and Infrastructure	20 to 100 years
Equipment and Vehicles	5 to 20 years

**Premiums/Discount**

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

**Long-Term Debt**

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

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

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

**Net Position**

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

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

**Fund Balance Classifications**

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

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

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

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

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

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

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

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



**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

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

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

*Government-wide financial statements*

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

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

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

**Use of Estimates**

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

**NOTE 3 CUSTODIAL CREDIT RISK**

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

The City does have a deposit policy. The City maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2018, the City’s bank balance totaled \$3,791,422. Of the bank balance, \$399,747 is covered by FDIC insurance and the remainder is covered by pledged collateral.

The JDA maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2018, the JDA’s bank balance totaled \$463,280, all of which is covered by FDIC insurance.



**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**NOTE 4 PROPERTY TAXES**

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

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

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

**NOTE 5 NOTES RECEIVABLE – COMPONENT UNIT**

The Job Development Authority issued two forgivable loans during 2016, one for \$15,000 due in five annual installments and one for \$7,500 due in three annual installments. Loan requirements will be reviewed on an annual basis on the loan anniversary date at which point annual installments will be forgiven if it is determined the borrower is in compliance. In the event of noncompliance, the annual installment will be due and payable along with interest at a rate of 6 percent. As of December 31, 2018, \$11,750 had been forgiven on the above loans and \$1,750 had been repaid.

**NOTE 6 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018 is as follows:

	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 237,332	\$ -	\$ -	\$ 237,332
Total capital assets not being depreciated	<u>237,332</u>	<u>-</u>	<u>-</u>	<u>237,332</u>
Capital assets being depreciated				
Buildings and infrastructure	12,490,484	223,109	53,075	12,660,518
Machines and vehicles	1,235,905	43,449	49,774	1,229,580
Total capital assets being depreciated	<u>13,726,389</u>	<u>266,558</u>	<u>102,849</u>	<u>13,890,098</u>
Less accumulated depreciation:				
Buildings and infrastructure	4,387,047	556,229	17,913	4,925,363
Machines and vehicles	704,211	94,668	16,228	782,651
Total accumulated depreciation	<u>5,091,258</u>	<u>650,897</u>	<u>34,141</u>	<u>5,708,014</u>
Total capital assets being depreciated, net	<u>8,635,131</u>	<u>(384,339)</u>	<u>68,708</u>	<u>8,182,084</u>
<b>Governmental capital assets, net</b>	<u>\$ 8,872,463</u>	<u>\$ (384,339)</u>	<u>\$ 68,708</u>	<u>\$ 8,419,416</u>

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 52,420	\$ -	\$ -	\$ 52,420
Construction in progress	65,055	872,685	-	937,740
Total capital assets not being depreciated	<u>117,475</u>	<u>872,685</u>	<u>-</u>	<u>990,160</u>
Capital assets being depreciated				
Buildings and infrastructure	4,494,645	-	-	4,494,645
Machines and vehicles	421,479	-	-	421,479
Total capital assets being depreciated	<u>4,916,124</u>	<u>-</u>	<u>-</u>	<u>4,916,124</u>
Less accumulated depreciation:				
Buildings and infrastructure	1,703,291	197,964	-	1,901,255
Machines and vehicles	292,498	37,642	-	330,140
Total accumulated depreciation	<u>1,995,789</u>	<u>235,606</u>	<u>-</u>	<u>2,231,395</u>
Total capital assets being depreciated, net	<u>2,920,335</u>	<u>(235,606)</u>	<u>-</u>	<u>2,684,729</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 3,037,810</u>	<u>\$ 637,079</u>	<u>\$ -</u>	<u>\$ 3,674,889</u>

	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
<b>Component Unit, JDA</b>				
Capital assets being depreciated:				
Buildings and infrastructure	\$ 804,610	\$ -	\$ -	\$ 804,610
Equipment and fixtures	3,996	-	-	3,996
Total capital assets being depreciated	<u>808,606</u>	<u>-</u>	<u>-</u>	<u>808,606</u>
Capital assets being amortized:				
Intangibles	1,610	1,975	-	3,585
Less accumulated depreciation:				
Buildings and infrastructure	139,377	20,115	-	159,492
Equipment and fixtures	2,979	439	-	3,418
Total accumulated depreciation	<u>142,356</u>	<u>20,554</u>	<u>-</u>	<u>162,910</u>
Less accumulated amortization:				
Intangibles	-	267	-	267
Total capital assets being depreciated or amortized, net	<u>667,860</u>	<u>(18,846)</u>	<u>-</u>	<u>649,014</u>
Component unit capital assets, net	<u>\$ 667,860</u>	<u>\$ (18,846)</u>	<u>\$ -</u>	<u>\$ 649,014</u>

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

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

Governmental Activities:	
General government	\$ 69,065
Public safety	36,542
Public works	545,290
Total depreciation expense for governmental activities	<u>\$ 650,897</u>
Business-type Activities:	
Water operating	\$ 225,491
Sewer operating	10,115
Total depreciation expense for business-type activities	<u>\$ 235,606</u>

**NOTE 7 NOTES AND BONDS PAYABLE**

The following is a summary of long-term debt of the City of Rugby for the year ended December 31, 2018:

<u>Governmental activities:</u>	<u>Year-End Balance</u>
Refunding Improvement Bonds of 2017 (Build America Bonds) The bonds carry interest rates of 3.0% and are scheduled to be fully repaid on May 1, 2024.	\$1,755,000
Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033.	1,205,309
Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033.	1,034,691
General Obligation Fire Station Bonds of 2015. The bonds carry interest rates of 1.40% - 3.00% and are scheduled to be fully repaid on May 1, 2025.	<u>295,000</u>
Total Notes and Bonds Payable- Governmental Funds Before Bond Discounts/Premiums	4,290,000
Less: Bond discount, net of amortization	7,291
Add: Bond premium, net of amortization	<u>50,991</u>
Total Notes and Bonds Payable- Governmental Funds	<u>\$4,333,700</u>

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

<u>Business-type activities:</u>	Year-End Balance
Water Revenue Bonds of 2018. The Bonds will carry an interest rate of 1.5% and are scheduled to be fully retired on September 1, 2038	\$ 246,956
Water Revenue Bonds of 2015. The bonds carry interest rates of 2.00% - 4.00% and are scheduled to be fully retired on June 1, 2025.	345,000
Total Notes and Bonds Payable - Proprietary Funds Before Bond Premiums	591,956
Add: Bond premium, net of amortization	31,647
Total Notes and Bonds Payable - Enterprise Funds	\$ 623,603
<u>Component unit:</u>	Year-End Balance
Bremer Bank note. The note carries an interest rate of 7.0% and is scheduled to be fully repaid on January 1, 2026.	\$ 206,719
Rural Development Finance Corporation note. The note carries an interest rate of 1.0% and is scheduled to be fully repaid on November 23, 2021.	15,526
Souris Basin IRP note. The note carries an interest rate of 4.0% and is scheduled to be fully repaid on March 1, 2026.	84,050
Total Notes Payable - Component Unit	\$ 306,295

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

The annual payment requirements on the above debt as of December 31, 2018 are as follows:

Year Ending December 31	Governmental Activities	
	Bonds and Notes	
	Principal	Interest
2019	\$ 435,000	\$ 101,355
2020	450,000	90,953
2021	455,000	80,153
2022	470,009	69,023
2023	490,009	57,128
2024-2028	1,145,000	164,174
2029-2033	845,301	66,516
	<u>\$ 4,290,319</u>	<u>\$ 629,302</u>

Year Ending December 31	Business-type Activities	
	Bonds	
	Principal	Interest
2019	\$ 55,000	\$ 16,238
2020	55,000	15,650
2021	55,000	14,150
2022	60,000	12,325
2023	65,000	10,175
2024-2028	185,000	20,500
2029-2033	75,000	9,375
2034-2038	41,956	2,925
	<u>\$ 591,956</u>	<u>\$ 101,338</u>

Year Ending December 31	Component Unit	
	Notes	
	Principal	Interest
2019	\$ 38,825	\$ 17,428
2020	40,981	15,272
2021	43,354	12,899
2022	40,568	10,408
2023	43,171	7,804
2024-2028	99,396	7,121
	<u>\$ 306,295</u>	<u>\$ 70,932</u>

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

The following is a summary of the activity in long-term liabilities for the year ended December 31, 2018:

	<u>Balance</u> <u>1/1/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2018</u>	<u>Due Within</u> <u>One Year</u>
<i>Governmental activities:</i>					
Refunding Improvement Bonds of 2013	\$ 1,272,569	\$ -	\$ (67,260)	\$ 1,205,309	\$ 69,950
Refunding Improvement Bonds of 2013	1,092,431	-	(57,740)	1,034,691	60,050
Refunding Improvement Bonds of 2017	2,005,000	-	(250,000)	1,755,000	265,000
General Obligation Fire Station Bonds of 2015	330,000	-	(35,000)	295,000	40,000
Vehicle Note	10,095	-	(10,095)	-	-
	<u>\$ 4,710,095</u>	<u>\$ -</u>	<u>\$ (420,095)</u>	<u>\$ 4,290,000</u>	<u>\$ 435,000</u>
<i>Business-type activities:</i>					
Water Revenue Bonds 2015	\$ 385,000	\$ -	\$ (40,000)	\$ 345,000	\$ 45,000
Water Revenue Bonds 2018	-	246,956	-	246,956	10,000
	<u>\$ 385,000</u>	<u>\$ 246,956</u>	<u>\$ (40,000)</u>	<u>\$ 591,956</u>	<u>\$ 55,000</u>
<i>Component unit:</i>					
Bremer Bank Note	\$ 228,978	\$ -	\$ (22,259)	\$ 206,719	\$ 23,611
Rural Development Finance Corporation Note	20,599	-	(5,073)	15,526	5,124
Souris Basin IRP Note	93,777	-	(9,727)	84,050	10,090
	<u>\$ 343,354</u>	<u>\$ -</u>	<u>\$ (37,059)</u>	<u>\$ 306,295</u>	<u>\$ 38,825</u>

During 2010, the Job Development Authority made an interest prepayment of \$44,160 on the Bremer bank note. Interest recognized in 2018 on the prepayment was \$3,312 and the remaining balance as of December 31, 2018 was \$10,302.

**NOTE 8 CONDUIT DEBT OBLIGATIONS**

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

**Special Facility Revenue Bonds**

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

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

Health Care Facility Revenue Bonds (Good Samaritan Hospital Association Project), Series 2013 – The \$1,215,000 Series 2013 Bonds, issued September 1, 2013, are special, limited obligations of the City, payable solely from certain project payments to be made by the Heart of America Medical Center. As of December 31, 2018, the amount outstanding was approximately \$644,795.

**NOTE 9 FUND BALANCE**

**Classifications**

At December 31, 2018, a summary of the governmental fund balance classifications are as follows:

	District 2017-1 <u>Debt Service</u>	Highway and <u>Streets</u>	Infrastructure Maintenance <u>Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Restricted for:					
Capital Projects	\$ -	\$ -	\$ 697,087	\$ 144,179	\$ 841,266
Highways and Streets	-	51,467	-	-	51,467
Debt Service	45,177	-	-	578,893	624,070
Snow Removal	-	-	-	19,185	19,185
Flood Control 1-1985	-	-	-	130,938	130,938
Economic Developer Director	-	-	-	5,958	5,958
Building Reserve	-	-	-	140,011	140,011
	<u>\$ 45,177</u>	<u>\$ 51,467</u>	<u>\$ 697,087</u>	<u>\$ 1,019,164</u>	<u>\$ 1,812,895</u>

**Minimum Fund Balance Policy**

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

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**NOTE 10 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers for the year ended December 31, 2018 were as follows:

	General Fund	Highways and Streets	District 2017-1 Debt Service	Infrastructure Maintenance Fund	Other Governmental Funds
Transfers in	\$ 145,370	\$ 200,000	\$ 153,000	\$ -	\$ 204,864
Transfers out	(70,007)	(100,000)	-	(522,571)	(10,656)
	<u>\$ 75,363</u>	<u>\$ 100,000</u>	<u>\$ 153,000</u>	<u>\$ (522,571)</u>	<u>\$ 194,208</u>

  

	Water Operating Fund	Sanitation Sewer Operations	Other Enterprise Funds	Total
Transfer in	\$ 317,020	\$ -	\$ 67,000	\$ 703,234
Transfer out	(17,000)	(50,000)	(317,020)	(703,234)
	<u>\$ 300,020</u>	<u>\$ (50,000)</u>	<u>\$ (250,020)</u>	<u>\$ -</u>

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

**NOTE 11 RISK MANAGEMENT**

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

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

**NOTE 12 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

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

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating



**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

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; and 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. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 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 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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

***Member and Employer Contributions***

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

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. 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 of Rugby were to report on the full accrual basis, a liability of \$1,066,147 for its proportionate share of the net pension liability would have been reported. 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 Employer's proportion of the net pension liability was based on the Employer'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 Employer's proportion was 0.063175%. There were no deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

**NOTE 13 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.

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

**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.

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, if the City of Rugby were to report on the full accrual basis, a liability of \$46,712 would have been reported. The net OPEB liability was measured at 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 0.059312 percent. There were no deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

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

Inflation	2.50%
Salary increases	Not applicable
Investment rate 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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.50%. 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, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability

**NOTE 14 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 RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF 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.

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2018

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 15 COMMITMENTS**

The City has a commitment associated with its NAWS contract with the North Dakota State Water Commission. Under the terms of the contract, the City is required to remit (on a quarterly basis) fifteen cents per each thousand gallons of water to the Commission's OM&R fund. The current contract expires February 23, 2038. As of December 31, 2018, the City remitted a total of \$156,795 to the Commission.

In 2012, the City entered into an agreement with HACTC Housing to pay \$65/day per prisoner sentenced from the City of Rugby. The rate increased to \$75/day in December 2018. The City makes monthly payments in proportion to the services rendered. Since the agreement was entered into, the City has paid \$45,143 for prisoner housing to HACTC.

In 2012, the City agreed to contribute \$6,000 annually to Pierce County to help pay for a loan used to install an elevator at the Heart of America library. As of December 31, 2018, the City has made payments totaling \$24,000.

In 2017, The City agreed to pay Samson Electric \$189,251 to complete the electrical component of the Water treatment plant improvement. Additional work was added to the original contract, bringing the total contract to \$210,560. As of December 31, 2018, payments totaling \$168,076 have been made.

In 2018, the City agreed to pay Interstate Engineering, Inc \$266,904 to complete engineering and design work for the raw water line project. As of December 31, 2018, payments totaling \$246,956 have been paid. The City will pay the remaining \$19,948 during 2019.

**NOTE 16 CONTINGENCIES**

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

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**NOTE 17 JOINT VENTURES**

**Rugby Volunteer Fire Department**

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

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

**Heart of America Library**

Under the authorization of state statutes, the City joined Pierce County to operate the Heart of America Library. The public library will be governed by a Joint Library Board, which is comprised of four members appointed by the City, four members appointed by Pierce County, and one additional member from each governing board. The operating and capital expenses are funded by a 3.90 mill contribution from Pierce County and a 6.25 mill contribution from the City. Other contributions include amounts from the state library fund, donations, and used book sales. The City shall cover all additional expenses not covered by these shares of funds.

Complete financial information can be obtained from Vicki Hoffart, Library Director, 201 3<sup>rd</sup> Street SW, Rugby, ND 58368

**NOTE 18 PRIOR PERIOD ADJUSTMENT**

A prior period adjustment relating to the City's component unit, Job and Development Authority, for \$19,067 was made due to an additional disposal of a Chalmer Lot that had occurred in 2017, but was not initially recorded. As a result, beginning net position has been restated as of January 1, 2018 as follows:

	Component Unit
Net position, January 1, 2018, as previously reported	\$1,513,226
Disposal of Land	(19,067)
Net position, January 1, 2018, as restated	\$1,494,159

**NOTE 19 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through November 26, 2019, which is the date these financial statements were available to be issued.

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

To the City Council  
City of Rugby  
Rugby, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Rugby's basic financial statements and have issued our report thereon dated November 26, 2019.

### **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-002 to be a significant deficiency.

### **Compliance and Other Matters**

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

### **City's Responses to Findings**

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

### **Purpose of this Report**

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



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

November 26, 2019

**CITY OF RUGBY, NORTH DAKOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**Findings Relating to Financial Statements**

**2018-001** *Financial Statement Preparation and Journal Entries*

**Criteria**

An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures

**Condition**

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

**Cause**

The City's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

**Effect**

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with the modified cash basis of accounting. However, the City is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

**Recommendation**

We recommend that the City reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

**Views of responsible officials and planned corrective actions**

Due to the financial, efficiency and time constraints, it has been determined by the City of Rugby's management that it is in the best interest of the City and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

**CITY OF RUGBY, NORTH DAKOTA**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018

**2018-002** *Segregation of Duties*

**Criteria**

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

**Condition**

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

**Cause**

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

**Effect**

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

**Recommendation**

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

**Views of responsible officials and planned corrective actions**

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