

**CITY OF GRAFTON
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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CITY OF GRAFTON, NORTH DAKOTA
OFFICIAL DIRECTORY
AS OF DECEMBER 31, 2019

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

OFFICERS AND MAYOR

Chris Lipsh	President
Greg Young	Vice-President
Chris West	Mayor

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Grafton, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2020, on our consideration of the City of Grafton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Grafton, North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Grafton's internal control over financial reporting and compliance.



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

September 2, 2020

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

As management of the City of Grafton, we are pleased to offer readers of the City of Grafton's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2019. We encourage readers to consider it in conjunction with the additional information presented in the basic financial statements and the notes to the financial statements.

Using This Annual Report:

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

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

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

Government-wide Financial Statements:

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Fund Financial Statements:

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

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

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

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

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

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

Notes to the Financial Statements:

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

Financial Analysis of the City as a whole:

The City's net position for the years ended December 31, 2019 and 2018 is summarized below; see the statement of net position in the financial statements for more detail.

	Governmental Activities (Restated)		Business-Type Activities	
	12/31/19	12/31/18	12/31/19	12/31/18
ASSETS				
Current assets	\$ 12,068,583	\$ 14,691,176	\$ 5,142,827	\$ 4,328,888
Capital assets				
Property, plant and equipment	15,927,355	13,614,859	35,986,836	35,521,577
Construction in progress	33,510,914	25,750,841	153,344	44,908
Less accumulated depreciation	(4,745,410)	(4,232,624)	(20,132,426)	(19,366,263)
Other non-current assets	1,815,000	2,021,968	-	253,001
TOTAL ASSETS	58,576,442	51,846,220	21,150,581	20,782,111
DEFERRED OUTFLOWS OF RESOURCES	565,067	713,945	273,052	346,280
LIABILITIES				
Current Liabilities	1,337,322	1,713,269	840,532	759,484
Long-term Liabilities				
Bonds and notes payable-Due within one year	674,793	690,575	209,000	203,000
Bonds and notes payable-Noncurrent portion	17,354,976	17,975,745	2,314,760	2,523,760
Net pension liability	1,209,130	1,794,432	584,281	828,771
Net OPEB Liability	77,238	78,623	37,323	36,312
TOTAL LIABILITIES	20,653,459	22,252,644	3,985,896	4,351,327
DEFERRED INFLOWS OF RESOURCES	639,342	87,392	308,945	56,905
NET POSITION				
Net Investment in Capital Assets	26,720,639	15,602,298	13,483,994	13,473,462
Restricted	8,276,974	10,692,761	364,068	344,340
Unrestricted	2,851,095	3,925,070	3,280,730	2,902,357
TOTAL NET POSITION	\$ 37,848,708	\$ 30,220,129	\$ 17,128,792	\$ 16,720,159

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Governmental Activities:

The City of Grafton's governmental activities net position increased \$7,628,579 for the year ended December 31, 2019. Key elements and a detailed summary of this increase are shown below.

Business-type Activities:

Business-type activities increased the City of Grafton's net position by \$408,633. Comparisons of net position can be seen on page 7 of this report with a detailed change in the City's business-type activities by function shown below.

	Governmental Activities (Restated)		Business-Type Activities	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
REVENUES				
Program Revenues:				
Charges for services	\$ 367,144	\$ 354,270	\$ 8,902,241	\$ 9,115,632
Capital grants and contributions	8,030,568	16,017,580	-	29,830
Total program revenues	8,397,712	16,371,850	8,902,241	9,145,462
General Revenues:				
Taxes	1,896,103	1,775,094	-	-
Special assessments	11,898	(20,951)	-	-
Intergovernmental	696,744	645,613	-	-
Other	797,704	636,039	140,907	74,664
Total general revenues	3,402,449	3,035,795	140,907	74,664
Total revenues	11,800,161	19,407,645	9,043,148	9,220,126
EXPENSES				
Governmental:				
General government	679,127	754,236	-	-
Public safety	1,514,770	1,572,386	-	-
Highways and streets	1,089,138	930,520	-	-
Health and welfare	45,972	61,071	-	-
Public works	827,784	4,507,152	-	-
Other	242,429	764,922	-	-
Interest	564,612	447,465	-	-
Business type activities operating expenses:				
Electric	-	-	5,681,870	5,758,232
Water	-	-	1,135,505	1,205,919
Wastewater	-	-	552,093	564,928
Sanitation	-	-	395,163	396,707
Pest control	-	-	77,634	63,485
Total expenses	4,963,832	9,037,752	7,842,265	7,989,271
Change in net position before transfers	6,836,329	10,369,893	1,200,883	1,230,855
Transfers in (out)	792,250	872,250	(792,250)	(872,250)
Change in net position	7,628,579	11,242,143	408,633	358,605
Net position beginning of year	30,220,129	19,046,636	16,720,159	16,391,268
GASB 75 Adjustment	-	(68,650)	-	(29,714)
Net position end of year - Restated	\$ 37,848,708	\$ 30,220,129	\$ 17,128,792	\$ 16,720,159

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Financial Analysis of the Government's Funds:

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

Governmental Funds:

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

As of the end of the fiscal year, the City of Grafton's governmental funds reported combined ending fund balances of \$10,097,530.

The General Fund is the chief operating fund of the City of Grafton. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$941,937 while the total fund balance was \$2,245,626. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total expenditures. Unassigned fund balance represents 42% of the total general fund balance and 44% of total general fund expenditures.

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

Development Sales Tax	\$ 2,348,157
Flood Control	4,177,018
Other Governmental Funds	1,326,729

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Proprietary Funds

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

Unrestricted net position of the City of Grafton's proprietary funds at the end of the year amounted to \$3,280,730. This balance consisted of \$1,584,248 in the Electric fund, \$1,059,932 in the Water fund, \$69,225 in the Wastewater fund, and \$284,625 and \$282,700 in the Sanitation and Pest Control funds, respectively.

Governmental Fund Budgetary Highlights

The General Fund and Electric Department expenditures were amended \$123,780 largely to account for capital outlay purchased during the year.

Assigned funds are appropriations from previous budgets and reserved by the City Council to be spent at a later date. The amounts were transferred from the assigned fund balance and the 2019 budget was increased as expenditures were made.

The Annual Special Assessments Fund expenditures were amended \$30,000. Properties from the NStarr Development were purchased by the City for \$1 due to delinquent taxes. The amendment allows the City to make payment to the County for 2019 billed special assessments.

The 2017 Definitive Warrant Fund budget was amended \$2,000 as BND posts payments on date received. Accrued interest therefore fluctuates, and the result is a varied billing as opposed to a firm amortization schedule.

The Airport Fund was amended \$423,000 to reflect the balance of the pavement rehabilitation project/grant that was approved by the FAA (90%) and ND Aeronautics Commission (5%).

Sales tax proceeds were higher than budgeted in 2019. Proceeds over the amount of the 2008-A Sales Tax Revenue Fund bond payment are forwarded to Unity Medical Center and the \$30,000 amendment will allow payment of the excess funds.

Capital Assets and Debt Administration

Capital Assets

The City of Grafton's capital assets for its governmental and business-type activities as of December 31, 2019 amounted to \$60,700,613 (net of accumulated depreciation). The capital assets included land, buildings and improvements, transmission system, vehicles and equipment, infrastructure and work in progress. The total in the City of Grafton's investment in capital assets for the current fiscal year was an increase of \$9,559,783 in the governmental activities and a decrease of \$192,468 in the business-type activities. The significant additions in the governmental activities were costs related to the City's flood protection project and in the business type activities improvements to the utility distribution systems. See note 3 for details.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Debt

At year-end, the City had outstanding long-term debt of \$22,461,501, a decrease of \$1,669,717 compared to last year. Additional information on the City of Grafton's debt can be found in Note 4 beginning on page 34 of this report.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of the assessed valuation of taxable property within the city. The current debt limitation is approximately \$4,230,000, which is significantly in excess of the City of Grafton's existing general obligation debt.

Below is the debt activity for the year ended December 31, 2019:

GOVERNMENTAL ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
Refunding Improvement Bonds:								
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,070,000	\$ -	\$ (160,000)	\$ -	\$ 2,910,000	\$ 160,000	\$ 6,625
Bond Premium		34,340	-	-	(2,020)	32,320	-	-
\$10,000,000 of 2018	3.50% - 4.0%	10,000,000	-	(225,000)	-	9,775,000	200,000	29,990
Bond Premium		121,619	-	-	(4,054)	117,565	-	-
Bond Discount		(136,600)	-	-	4,553	(132,047)	-	-
General Obligation Bonds 2012	.4%-1.4%	380,000	-	(90,000)	-	290,000	95,000	637
Sales Tax Revenue Bonds								
\$2,350,000 2008A	3.5% - 5.5%	1,875,000	-	(60,000)	-	1,815,000	60,000	16,067
Definitive Improvement 2017	1.50%	3,267,869	-	(103,487)	-	3,164,382	102,244	8,087
Compensated Absences		54,092	-	-	3,457	57,549	-	-
Other Debt:								
Net Pension Liability		1,794,432	-	-	(585,302)	1,209,130	-	-
Net OPEB Liability		78,623	-	-	(1,385)	77,238	-	-
		<u>\$ 20,539,375</u>	<u>\$ -</u>	<u>\$ (638,487)</u>	<u>\$ (584,751)</u>	<u>\$ 19,316,137</u>	<u>\$ 617,244</u>	<u>\$ 61,406</u>

BUSINESS-TYPE ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
<u>Water</u>								
ND Public Finance Water Revenue Bonds	2.50%	\$ 70,000	\$ -	\$ (15,000)	\$ -	\$ 55,000	\$ 15,000	\$ 458
ND Public Finance	2.50%	352,000	-	(67,000)	-	285,000	68,000	2,375
ND Public Finance	2.00%	1,750,000	-	(90,000)	-	1,660,000	95,000	11,067
Net Pension Liability		315,059	-	-	(110,739)	204,320	-	-
Net OPEB Liability		13,804	-	-	(752)	13,052	-	-
		<u>\$ 2,500,863</u>	<u>\$ -</u>	<u>\$ (172,000)</u>	<u>\$ (111,491)</u>	<u>\$ 2,217,372</u>	<u>\$ 178,000</u>	<u>\$ 13,900</u>
<u>Wastewater</u>								
ND Public Finance-Clean Water Loan	2.00%	\$ 494,760	\$ -	\$ (1,000)	\$ -	\$ 493,760	\$ 1,000	\$ 250
ND Public Finance-Sewer Revenue Bonds	2.50%	60,000	-	(30,000)	-	30,000	30,000	3,292
Net Pension Liability		140,577	-	-	(42,563)	98,014	-	-
Net OPEB Liability		6,159	-	-	102	6,261	-	-
		<u>\$ 701,496</u>	<u>\$ -</u>	<u>\$ (31,000)</u>	<u>\$ (42,461)</u>	<u>\$ 628,035</u>	<u>\$ 31,000</u>	<u>\$ 3,542</u>
<u>Electric</u>								
Net Pension Liability		\$ 373,135	\$ -	\$ -	\$ (91,188)	\$ 281,947	\$ -	\$ -
Net OPEB Liability		16,349	-	-	1,661	18,010	-	-
		<u>\$ 389,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (89,527)</u>	<u>\$ 299,957</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Economic Factors and Next Year's Budgets and Rates

Construction of a permanent flood control project is substantially complete at an estimated cost of \$46,500,000. The engineer is working with FEMA to get the Letter of Map Revision (LOMR) approved. The LOMR will remove the city from the flood map. The State has contributed 68% of eligible expenses and bonds were sold to finance the local share. The bonds are backed by special assessments; however sales tax funds have been designated to fund the debt for the Flood Risk Reduction project. In 2014, citizens voted to increase the sales tax rate by an additional ½% dedicated to the flood project and effective through March 31, 2040.

Utility rates remained unchanged in 2019 and 2020.

The value of a mill for the 2019 budget was \$7,341 and is approximately \$7,643 for 2020.

Contacting the City's Financial Management

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

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 5,946,265	\$ 1,644,431	\$ 7,590,696	\$ 55,751
Restricted cash and cash equivalents	-	130,993	130,993	-
Investments	4,475,909	1,654,216	6,130,125	100,000
Restricted Investments	-	233,075	233,075	-
Receivables:				
Taxes	54,861	-	54,861	1,962
Accounts (net of uncollectibles)	-	1,073,892	1,073,892	-
Other	744,616	17,585	762,201	19,357
Special assessments	520,522	-	520,522	-
Interest	46,709	18,669	65,378	1,905
Notes receivable	184,145	32,442	216,587	-
Due from other governments	11,664	-	11,664	408
Prepaid expense	11,349	17,306	28,655	838
Inventory	72,543	320,218	392,761	-
Capital Assets-not being depreciated				
Land	-	964,472	964,472	-
Construction in progress	33,510,914	153,344	33,664,258	-
Capital Assets				
Property, plant and equipment	15,927,355	35,022,364	50,949,719	2,913,685
Less accumulated depreciation	(4,745,410)	(20,132,426)	(24,877,836)	(710,415)
Other Assets				
Notes receivable-Unity Hospital	1,815,000	-	1,815,000	-
TOTAL ASSETS	58,576,442	21,150,581	79,727,023	2,383,491
DEFERRED OUTFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan-NDPERS	545,552	263,623	809,175	-
Cost sharing defined OPEB Plan-NDPERS	19,515	9,429	28,944	-
Total deferred outflows	<u>565,067</u>	<u>273,052</u>	<u>838,119</u>	<u>-</u>
LIABILITIES				
Accounts payable	1,183,731	557,334	1,741,065	1,709
Salaries payable	11,619	5,167	16,786	-
Vacations payable	3,488	23,884	27,372	-
Interest payable	61,406	17,442	78,848	-
Due to other governments	77,078	-	77,078	-
Customer deposits	-	236,705	236,705	-
Noncurrent liabilities				
Compensated absences	57,549	-	57,549	-
Bonds and notes payable-due within one year	617,244	209,000	826,244	-
Bonds and notes payable-due in more than one year	17,354,976	2,314,760	19,669,736	-
Net pension liability	1,209,130	584,281	1,793,411	-
Net OPEB liability	77,238	37,323	114,561	-
TOTAL LIABILITIES	20,653,459	3,985,896	24,639,355	1,709
DEFERRED INFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan-NDPERS	635,684	307,177	942,861	-
Cost sharing defined benefit OPEB Plan-NDPERS	3,658	1,768	5,426	-
Total deferred inflows	<u>639,342</u>	<u>308,945</u>	<u>948,287</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	26,720,639	13,483,994	40,204,633	2,203,270
Restricted-Debt service	501,374	364,068	865,442	-
Restricted-Flood control	4,177,018	-	4,177,018	-
Restricted-Economic development	2,773,097	-	2,773,097	-
Restricted-other	825,485	-	825,485	178,512
Unrestricted	2,851,095	3,280,730	6,131,825	-
TOTAL NET POSITION	\$ 37,848,708	\$ 17,128,792	\$ 54,977,500	\$ 2,381,782

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

					Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Functions/Programs	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Governmental Activities								
Current								
General government	\$ 679,127	\$ 143,081	\$ -	\$ -	\$ (536,046)	\$ -	\$ (536,046)	\$ -
Public safety	1,514,770	35,499	-	-	(1,479,271)	-	(1,479,271)	-
Highways and streets	1,089,138	188,564	-	-	(900,574)	-	(900,574)	-
Health and welfare	45,972	-	-	-	(45,972)	-	(45,972)	-
Public Works	827,784	-	-	8,030,568	7,202,784	-	7,202,784	-
Other	242,429	-	-	-	(242,429)	-	(242,429)	-
Debt service								
Interest	564,612	-	-	-	(564,612)	-	(564,612)	-
Total Governmental Activities	4,963,832	367,144	-	8,030,568	3,433,880	-	3,433,880	-
Business-Type Activities								
Electric	5,681,870	6,704,116	-	-	-	1,022,246	1,022,246	-
Water	1,135,505	1,134,774	-	-	-	(731)	(731)	-
Wastewater	552,093	503,195	-	-	-	(48,898)	(48,898)	-
Sanitation	395,163	422,421	-	-	-	27,258	27,258	-
Pest control	77,634	137,735	-	-	-	60,101	60,101	-
Total Business-Type Activities	7,842,265	8,902,241	-	-	-	1,059,976	1,059,976	-
Total Primary Government	\$ 12,806,097	\$ 9,269,385	\$ -	\$ 8,030,568	3,433,880	1,059,976	4,493,856	-
Component Unit								
Airport Authority	\$ 386,226	\$ -	\$ -	\$ 196,288	-	-	-	(189,938)
Total Component Units	\$ 386,226	\$ -	\$ -	\$ 196,288	-	-	-	(189,938)
General Receipts:								
Taxes					1,896,103	-	1,896,103	26,262
Special assessments					11,898	-	11,898	-
Intergovernmental (not restricted for specific program)								
State and federal					696,744	-	696,744	-
Interest earnings					-	84,287	84,287	-
Other general revenues					796,762	14,646	811,408	31,973
Gain (loss) on sale of capital assets					942	41,974	42,916	-
Transfers					792,250	(792,250)	-	-
Total General Receipts, Transfers and Sale of Capital Assets					4,194,699	(651,343)	3,543,356	58,235
Changes in Net Position					7,628,579	408,633	8,037,212	(131,703)
Net Position, January 1					29,606,257	16,720,159	46,326,416	2,516,101
Prior Period Adjustment - Note 11					613,872	-	613,872	(2,616)
Net Position - Beginning as Restated					30,220,129	16,720,159	46,940,288	2,513,485
Net Position, December 31					\$ 37,848,708	\$ 17,128,792	\$ 54,977,500	\$ 2,381,782

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019

		<u>Special Revenue</u>	<u>Capital Projects</u>		
	<u>General</u>	<u>Grafton Community Development Sales Tax</u>	<u>Flood Control</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,247,394	\$ 981,777	\$ 3,009,840	\$ 650,476	\$ 5,889,487
Investments	1,025,741	1,250,888	1,500,000	699,280	4,475,909
Receivables:					
Taxes	49,595	-	-	5,266	54,861
Other	-	-	744,616	-	744,616
Special assessments	9,052	424,940	-	86,530	520,522
Interest	14,035	22,449	-	10,225	46,709
Notes receivable	-	184,145	-	-	184,145
Due from other governments	10,569	-	-	1,095	11,664
Prepaid expense	10,321	-	-	-	10,321
Total Assets	<u>\$ 2,366,707</u>	<u>\$ 2,864,199</u>	<u>\$ 5,254,456</u>	<u>\$ 1,452,872</u>	<u>\$ 11,938,234</u>
LIABILITIES					
Accounts payable	\$ 51,290	\$ 14,024	\$ 1,077,438	\$ 34,346	\$ 1,177,098
Salaries payable	11,144	-	-	-	11,144
Due to other governments	-	77,078	-	-	77,078
Total Liabilities	<u>62,434</u>	<u>91,102</u>	<u>1,077,438</u>	<u>34,346</u>	<u>1,265,320</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue- property taxes	49,595	-	-	5,266	54,861
Uncertified special assessments	<u>9,052</u>	<u>424,940</u>	<u>-</u>	<u>86,531</u>	<u>520,523</u>
Total Deferred Inflows of Resources	<u>58,647</u>	<u>424,940</u>	<u>-</u>	<u>91,797</u>	<u>575,384</u>
FUND BALANCE					
Nonspendable	10,321	-	-	-	10,321
Restricted	-	2,348,157	4,177,018	1,296,468	7,821,643
Unrestricted					
Committed	-	-	-	30,261	30,261
Assigned	1,293,368	-	-	-	1,293,368
Unassigned	941,937	-	-	-	941,937
Total Fund Balance	<u>2,245,626</u>	<u>2,348,157</u>	<u>4,177,018</u>	<u>1,326,729</u>	<u>10,097,530</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 2,366,707</u>	<u>\$ 2,864,199.00</u>	<u>\$ 5,254,456</u>	<u>\$ 1,452,872</u>	<u>\$ 11,938,234</u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

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

Total fund balance-governmental funds	\$ 10,097,530
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 48,816,863	
Accumulated Depreciation	<u>(4,241,411)</u>	
Net		44,575,452

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

NDPERS Pension		(85,963)
NDPERS OPEB		15,124

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

These consist of:

Unavailable revenue-property taxes revenue		54,861
Uncertified special assessments		520,523

Long-term due from Unity Hospital are not available to pay for current period expenditures and therefore are not recorded in the funds.	1,815,000
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The City accounts for its internal maintenance fund as an internal service fund. The assets and liabilities of the internal service fund are included with governmental activities.	174,238
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Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:

Compensated absences	(57,549)	
Accrued interest payable	(61,406)	
Bonds payable	(17,954,382)	
Premium on bonds payable	(149,885)	
Discount on bonds payable	132,047	
Net pension liability	(1,153,216)	
Net OPEB liability	<u>(73,666)</u>	
		<u>(19,318,057)</u>

Total net position-governmental activities	<u>\$ 37,848,708</u>
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See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General	Special Revenue Grafton Community Development Sales Tax	Capital Projects Flood Control	Other Governmental Funds	Total
REVENUES					
Taxes	\$ 695,639	\$ 932,860	\$ -	\$ 318,137	\$ 1,946,636
Special assessments	11,440	24,361	-	28,334	64,135
Licenses and permits	134,188	-	-	-	134,188
Intergovernmental	672,171	22,315	8,030,568	2,258	8,727,312
Charges for services	8,893	-	-	-	8,893
Fines and forfeits	35,499	-	-	-	35,499
Miscellaneous	80,980	118,942	159,061	420,345	779,328
Total Revenues	<u>1,638,810</u>	<u>1,098,478</u>	<u>8,189,629</u>	<u>769,074</u>	<u>11,695,991</u>
EXPENDITURES					
Current:					
General government	524,878	-	-	29,176	554,054
Public safety	1,033,351	-	-	296,822	1,330,173
Highways and streets	569,552	-	-	16,996	586,548
Health and welfare	5,547	-	-	-	5,547
Other	20,628	135,595	2,051	84,155	242,429
Public Works	-	-	827,784	-	827,784
Capital outlay	-	-	10,044,434	16,850	10,061,284
Debt service:					
Principal retirement	-	-	-	638,486	638,486
Interest	-	-	-	598,172	598,172
Total expenditures	<u>2,153,956</u>	<u>135,595</u>	<u>10,874,269</u>	<u>1,680,657</u>	<u>14,844,477</u>
Revenues Over (Under) Expenditures	(515,146)	962,883	(2,684,640)	(911,583)	(3,148,486)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	942	-	-	-	942
Operating transfers in	791,080	-	-	983,568	1,774,648
Operating transfers out	(36,080)	(983,568)	-	-	(1,019,648)
Total Other Financing Sources (Uses)	<u>755,942</u>	<u>(983,568)</u>	<u>-</u>	<u>983,568</u>	<u>755,942</u>
Net Change in Fund Balance	<u>240,796</u>	<u>(20,685)</u>	<u>(2,684,640)</u>	<u>71,985</u>	<u>(2,392,544)</u>
Fund Balance - January 1	2,072,847	2,368,842	7,091,296	1,261,768	12,794,753
Prior Period Adjustment - See Note 11	(68,017)	-	(229,638)	(7,024)	(304,679)
Fund Balance - Beginning as Restated	<u>2,004,830</u>	<u>2,368,842</u>	<u>6,861,658</u>	<u>1,254,744</u>	<u>12,490,074</u>
Fund Balance - December 31	<u>\$ 2,245,626</u>	<u>\$ 2,348,157</u>	<u>\$ 4,177,018</u>	<u>\$ 1,326,729</u>	<u>\$ 10,097,530</u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

Net change in fund balance- total governmental funds	\$	(2,392,544)
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Governmental funds report capital outlays as expenditures.

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

Capital outlay	10,061,284	
Depreciation expense	(498,147)	
Excess of capital outlay over depreciation expense		9,563,137

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

Principal debt payments	638,486	
Amortization of bond premium & discounts	1,521	
		640,007

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

Net change in unavailable revenue-property taxes revenue		9,467
Net change in uncertified special assessments		(52,237)

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

Decrease in long term receivable	(60,000)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest decreased.

32,039

Changes in deferred outflows and inflows of resources related to net pension and OPEB liabilities	(668,901)
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Change in net pension and OPEB liabilities	560,996
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the government funds. These activities consist of:

Net decrease in accrued vacation	(3,457)
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An internal service fund is used by the City to account for its maintenance operations. The net income of the internal service fund is reported with governmental activities.

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Net change in net position of governmental activities	\$	<u>7,628,579</u>
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See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Business-type Activities Enterprise Funds						Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
ASSETS							
Current assets							
Cash and cash equivalents	\$ 755,563	\$ 601,375	\$ 186,613	\$ 10,824	\$ 90,056	\$ 1,644,431	\$ 56,778
Restricted cash and cash equivalents	-	76,554	54,439	-	-	130,993	-
Investments	700,541	502,915	50,000	225,380	175,380	1,654,216	-
Restricted investments	-	233,075	-	-	-	233,075	-
Receivables:							
Other	-	17,585	-	-	-	17,585	-
Accounts (net of uncollectibles)	825,152	126,692	59,050	47,177	15,821	1,073,892	-
Interest	10,637	3,520	117	2,774	1,621	18,669	-
Special Assessments - current portion	28,765	3,677	-	-	-	32,442	-
Prepaid expenses	10,773	5,305	1,216	-	12	17,306	1,028
Inventory	228,124	84,847	7,247	-	-	320,218	72,543
Total current assets	2,559,555	1,655,545	358,682	286,155	282,890	5,142,827	130,349
Capital assets-not being depreciated							
Land	677,145	40,810	195,993	50,524	-	964,472	-
Construction in progress	-	2,948	150,396	-	-	153,344	9,500
Capital assets							
Buildings/Improvements	1,421,924	7,744,719	952,449	24,672	-	10,143,764	535,416
Transmission system	7,181,574	10,305,211	5,802,690	-	-	23,289,475	38,979
Machinery and equipment	991,315	181,659	375,344	4,540	36,267	1,589,125	37,512
Total capital assets	10,271,958	18,275,347	7,476,872	79,736	36,267	36,140,180	621,407
Less accumulated depreciation	(6,860,762)	(8,523,303)	(4,697,035)	(15,059)	(36,267)	(20,132,426)	(504,000)
Net capital assets	3,411,196	9,752,044	2,779,837	64,677	-	16,007,754	117,407
TOTAL ASSETS	5,970,751	11,407,589	3,138,519	350,832	282,890	21,150,581	247,756
DEFERRED OUTFLOWS OF RESOURCES							
Cost sharing defined benefit pension plan-NDPERS	127,212	92,188	44,223	-	-	263,623	25,227
Cost sharing defined benefit OPEB Plan-NDPERS	4,550	3,297	1,582	-	-	9,429	902
Total deferred outflows	131,762	95,485	45,805	-	-	273,052	26,129
LIABILITIES							
Current liabilities							
Accounts payable	408,536	31,555	115,523	1,530	190	557,334	6,633
Salaries payable	2,630	1,653	884	-	-	5,167	475
Vacations payable	10,158	8,953	4,773	-	-	23,884	3,488
Interest payable	-	13,900	3,542	-	-	17,442	-
Bonds payable-current portion	-	178,000	31,000	-	-	209,000	-
Customer deposits	236,705	-	-	-	-	236,705	-
Total current liabilities	658,029	234,061	155,722	1,530	190	1,049,532	10,596
Long-term liabilities							
Non-current portion	-	1,822,000	492,760	-	-	2,314,760	-
Net pension liability	281,947	204,320	98,014	-	-	584,281	55,914
Net OPEB liability	18,010	13,052	6,261	-	-	37,323	3,572
Total non-current liabilities	299,957	2,039,372	597,035	-	-	2,936,364	59,486
TOTAL LIABILITIES	957,986	2,273,433	752,757	1,530	190	3,985,896	70,082
DEFERRED INFLOWS OF RESOURCES							
Cost sharing defined benefit pension plan-NDPERS	148,230	107,418	51,529	-	-	307,177	29,396
Cost sharing defined benefit OPEB Plan-NDPERS	853	618	297	-	-	1,768	169
Total deferred inflows	149,083	108,036	51,826	-	-	308,945	29,565
NET POSITION							
Net investment in capital assets	3,411,196	7,752,044	2,256,077	64,677	-	13,483,994	117,407
Restricted for bond covenants	-	309,629	54,439	-	-	364,068	-
Unrestricted	1,584,248	1,059,932	69,225	284,625	282,700	3,280,730	56,831
TOTAL NET POSITION	\$ 4,995,444	\$ 9,121,605	\$ 2,379,741	\$ 349,302	\$ 282,700	\$ 17,128,792	\$ 174,238

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Business-type Activities Enterprise Funds					Governmental Activities Internal Service Funds
	Electric	Water	Wastewater	Sanitation	Pest Control	Total
Operating Revenues:						
Sales - Net of Discounts	\$ 6,605,255	\$ 1,132,255	\$ 503,095	\$ 422,421	\$ 137,735	\$ 8,800,761
Operating Expenses:						
Cost of goods sold	4,330,931	-	-	-	-	4,330,931
Utilities and phone	10,189	93,530	115,740	51	-	219,510
Materials and supplies	9,780	4,020	2,567	-	-	16,367
Repairs and maintenance	19,679	9,298	3,007	-	-	31,984
Gas, fuel and oil	12,035	2,720	1,299	-	9	16,063
Insurance	103,633	81,225	39,792	-	41	224,691
Uniforms	2,287	-	-	-	-	2,287
Contracted services	1,415	3,979	1,827	362,808	45,539	415,568
Technology	-	3,583	-	-	-	3,583
Salaries	270,718	199,446	94,692	-	-	564,856
Payroll taxes	20,732	14,913	7,311	-	-	42,956
Retirement	88,697	33,255	23,287	-	-	145,239
Rent	-	-	6,907	-	-	6,907
Miscellaneous	28,634	10,781	3,903	293	96	43,707
Depreciation	219,545	365,774	178,080	971	1,790	766,160
General equipment	9,705	16	4,011	-	375	14,107
Operating expenses	289,943	144,562	47,220	27,814	-	509,539
Distribution system	64,928	2,739	8,085	-	410	76,162
Collection fees	950	-	-	3,226	-	4,176
Donated and internal use	191,366	5,821	-	-	-	197,187
Chemicals	-	110,285	2,322	-	29,124	141,731
Travel and training	3,041	548	911	-	250	4,750
Structures and improvements	187	3,224	-	-	-	3,411
Total Operating Expenses	5,678,395	1,089,719	540,961	395,163	77,634	7,781,872
Operating Income (Loss)	926,860	42,536	(37,866)	27,258	60,101	1,018,889
Non-Operating Revenues (Expenses):						
Materials sold	6,637	1,519	-	-	-	8,156
Interest earnings	33,702	32,643	5,854	6,463	5,625	84,287
Minnkota lease	91,140	-	-	-	-	91,140
Rent	1,087	1,000	100	-	-	2,187
Miscellaneous	8,794	4,923	(722)	1,111	537	14,643
Sale of fixed assets	41,859	115	-	-	-	41,974
Cost of materials sold	(1,475)	(1,519)	-	-	-	(2,994)
Incentives	(2,000)	-	-	-	-	(2,000)
Interest expense	-	(44,267)	(11,132)	-	-	(55,399)
Total Non-Operating Revenues (Expense)	179,744	(5,586)	(5,900)	7,574	6,162	181,994
Income (Loss) Before Operating Transfers and contributions	1,106,604	36,950	(43,766)	34,832	66,263	1,200,883
Capital Contributions	-	-	-	-	-	-
Operating Transfers In	30,000	-	-	-	-	30,000
Operating Transfers (Out)	(644,750)	(125,000)	(25,000)	(27,500)	-	(822,250)
Net Income (Loss)	491,854	(88,050)	(68,766)	7,332	66,263	408,633
Net Position, January 1	4,503,590	9,209,655	2,448,507	341,970	216,437	16,720,159
Net Position, December 31	\$ 4,995,444	\$ 9,121,605	\$ 2,379,741	\$ 349,302	\$ 282,700	\$ 17,128,792

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Business-type Activities Enterprise Funds					Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 6,616,244	\$ 1,130,331	\$ 503,200	\$ 422,873	\$ 137,859	\$ 188,564
Cash payments to suppliers	(5,172,860)	(522,368)	(165,734)	(394,152)	(75,844)	(177,749)
Cash paid to employees	(220,507)	(195,449)	(85,952)	-	-	(47,692)
Net cash flow from (to) operating activities	1,222,877	412,514	251,514	28,721	62,015	(36,877)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Miscellaneous revenues (expenses)	104,183	6,038	(622)	1,111	538	5,340
Transfers to (from) other funds	(614,750)	(125,000)	(25,000)	(27,500)	-	37,250
Net cash flow from (to) non-capital financing activities	(510,567)	(118,962)	(25,622)	(26,389)	538	42,590
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchases of property and equipment	(323,718)	(74,070)	(164,532)	(11,372)	-	(11,285)
Proceeds from sale of fixed assets	41,859	-	-	-	-	-
Capital contributions	-	-	-	-	-	11,285
Principal paid on debt	-	(172,000)	(31,000)	-	-	-
Interest paid on debt	-	(45,550)	(11,395)	-	-	-
Net cash flow from (to) capital and related financing activities	(281,859)	(291,620)	(206,927)	(11,372)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	23,065	29,743	5,892	4,066	4,537	813
(Purchase) Sale of certificates of deposits	(299,881)	(162,795)	29,806	(50,380)	(50,380)	-
Net cash flow from (to) investing activities	(276,816)	(133,052)	35,698	(46,314)	(45,843)	813
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	153,635	(131,120)	54,663	(55,354)	16,710	6,526
CASH AND CASH EQUIVALENTS, JANUARY 1, 2019	601,928	809,049	186,389	66,178	73,346	50,252
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2019	\$ 755,563	\$ 677,929	\$ 241,052	\$ 10,824	\$ 90,056	\$ 56,778
Cash and cash equivalents are comprised of the following:						
Cash and cash equivalents	\$ 755,563	\$ 601,375	\$ 186,613	\$ 10,824	\$ 90,056	\$ 56,778
Restricted cash and cash equivalents	-	76,554	54,439	-	-	-
Total cash and cash equivalents on the Statement of Net Position	\$ 755,563	\$ 677,929	\$ 241,052	\$ 10,824	\$ 90,056	\$ 56,778
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES						
Operating Income (loss)	\$ 926,860	\$ 42,536	\$ (37,866)	\$ 27,258	\$ 60,101	\$ (54,613)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	219,545	365,774	178,080	971	1,790	14,640
Changes in assets and liabilities						
(Increase)/Decrease in Accounts receivable	(3,676)	(1,924)	105	452	124	(4,919)
(Increase)/Decrease in Inventory	30,326	4,241	(791)	-	-	(1,745)
(Increase)/Decrease in Prepaid expenses	(302)	(220)	(126)	-	-	(34)
(Increase)/Decrease in Deferred outflows of resources	24,142	36,154	12,932	-	-	7,965
Increase/(Decrease) in Accounts payable	(14,752)	(1,890)	103,372	40	-	462
Increase/(Decrease) in Accrued salaries payable	(7,867)	(7,069)	(3,904)	-	-	(1,821)
Increase/(Decrease) in Customer deposits	14,665	-	-	-	-	-
Increase/(Decrease) in Deferred inflows of resources	123,462	86,404	42,173	-	-	23,962
Increase/(Decrease) in Net pension liability	(91,188)	(110,739)	(42,563)	-	-	(25,689)
Increase/(Decrease) in Net OPEB liability	1,662	(753)	102	-	-	(4)
Net cash provided (used) by operating activities	\$ 1,222,877	\$ 412,514	\$ 251,514	\$ 28,721	\$ 62,015	\$ (36,877)

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2019

	<u>Agency Funds</u>		Christian Unity Hospital	Total
	<u>Recreation</u>	<u>Library</u>		
ASSETS				
Investments	\$ -	\$ -	\$ 161,175	\$ 161,175
Taxes receivable	1,537	2,396	-	3,933
Interest receivable	-	-	3,135	3,135
Due from other governments	311	499	-	810
TOTAL ASSETS	<u><u>\$ 1,848</u></u>	<u><u>\$ 2,895</u></u>	<u><u>\$ 164,310</u></u>	<u><u>\$ 169,053</u></u>
LIABILITIES				
Due to other entities	\$ 311	\$ 499	\$ 164,310	\$ 165,120
Unearned revenues	1,537	2,396	-	3,933
TOTAL LIABILITIES	<u><u>\$ 1,848</u></u>	<u><u>\$ 2,895</u></u>	<u><u>\$ 164,310</u></u>	<u><u>\$ 169,053</u></u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Airport Authority

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

Volunteer Fire Department

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

Basis of Presentation

Government-Wide Financial Statements

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Fund Financial Statements

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

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

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

Governmental Funds

General Fund

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

Special Revenue Fund

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

Debt Service Fund

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

Capital Projects

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

Proprietary Funds

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

Fiduciary Funds

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

Agency Funds

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

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Cash and Investments

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

Revenues

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

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

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

Revenues-Exchange and Non-Exchange Transactions

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

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

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

Property Taxes

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Inventories and Prepaid Expenses

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

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

Capital Assets

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

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

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

Compensated Absences

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Long-Term Debt

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

Net Position

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

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

Fund Balances

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

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

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

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

Minimum Fund Balance Policy

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

Inter-fund Balances

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

Inter-fund Activity

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

Encumbrances

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

Estimates

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Significant Group Concentrations of Credit Risk

As of December 31, 2019, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security. The City does require a utility deposit for the utility customers.

Unearned Revenue

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

Pensions

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

Other Post Employment Benefits (OPEB)

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

Deferred Outflows/Inflows of Resources

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

Interest Rate Risk

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

Custodial Risk

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

The City maintains cash deposits at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2019, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions.

Credit Risk

State statutes authorize local governments to invest in:

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

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

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

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended December 31, 2019 are as follows:

	Restated Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities Capital Assets:				
Land	2,284,361	-	-	2,284,361
Buildings and improvements	\$ 1,351,520	\$ 11,285	\$ -	\$ 1,362,805
Vehicles and equipment	3,257,305	16,850	-	3,274,155
Infrastructure	9,006,035	-	-	9,006,035
Construction in progress	23,466,480	10,044,434	-	33,510,914
Total	<u>39,365,701</u>	<u>10,072,569</u>	<u>-</u>	<u>49,438,270</u>
Governmental Activities Accumulated Depreciation:				
Buildings and improvements	857,613	66,896	-	924,509
Vehicles and equipment	1,880,632	243,114	-	2,123,746
Infrastructure	1,494,379	202,776	-	1,697,155
Total	<u>4,232,624</u>	<u>512,786</u>	<u>-</u>	<u>4,745,410</u>
Net Capital Assets - Governmental Activities	<u>\$ 35,133,077</u>	<u>\$ 9,559,783</u>	<u>\$ -</u>	<u>\$ 44,692,860</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Changes in capital assets for business-type activities for the year ended December 31, 2019 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities Capital Assets:				
Land	\$ 964,472	\$ -	\$ -	\$ 964,472
Buildings and improvements	10,026,689	117,077	-	10,143,766
Transmission system	23,183,692	105,782	-	23,289,474
Vehicles and equipment	1,346,724	242,400	-	1,589,124
Construction in progress	44,908	177,695	69,259	153,344
Total	<u>35,566,485</u>	<u>642,954</u>	<u>69,259</u>	<u>36,140,180</u>
Business-Type Activities Accumulated				
Depreciation:				
Buildings and improvements	2,329,996	183,661	-	2,513,657
Transmission system	16,095,275	490,809	-	16,586,084
Vehicles and equipment	940,992	91,693	-	1,032,685
Total	<u>19,366,263</u>	<u>766,163</u>	<u>-</u>	<u>20,132,426</u>
Net Capital Assets				
Business-Type Activities	<u>\$ 16,200,222</u>	<u>\$ (123,209)</u>	<u>\$ 69,259</u>	<u>\$ 16,007,754</u>

Changes in capital assets for component unit for the year ended December 31, 2019 are as follows:

	Restated Beginning Balance	Additions	Disposals	Ending Balance
Component Unit Capital Assets:				
Buildings and improvements	\$ 2,907,835	\$ -	\$ -	\$ 2,907,835
Vehicles and equipment	5,850	-	-	5,850
Total	<u>2,913,685</u>	<u>-</u>	<u>-</u>	<u>2,913,685</u>
Component Unit Accumulated				
Depreciation:				
Buildings and improvements	586,819	117,746	-	704,565
Vehicles and equipment	5,850	-	-	5,850
Total	<u>592,669</u>	<u>117,746</u>	<u>-</u>	<u>710,415</u>
Net Capital Assets -				
Component Unit	<u>\$ 2,321,016</u>	<u>\$ (117,746)</u>	<u>\$ -</u>	<u>\$ 2,203,270</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

Governmental Activities	
General Government	\$ 13,711
Public Safety	184,597
Highways and Streets	259,413
Health and Recreation	40,425
Internal Service	<u>14,912</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 513,058</u>

Business-Type Activities	
Electric	\$ 219,545
Water	365,774
Wastewater	178,080
Sanitation	971
Pest Control	<u>1,790</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 766,160</u>

Total Depreciation Expense - Component Unit	<u>\$ 117,746</u>
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NOTE 4 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in governmental activities long-term debt by individual issue for the year ended December 31, 2019:

GOVERNMENTAL ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
Refunding Improvement Bonds:								
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,070,000	\$ -	\$ (160,000)	\$ -	\$ 2,910,000	\$ 160,000	\$ 6,625
Bond Premium		34,340	-	-	(2,020)	32,320	-	-
\$10,000,000 of 2018	3.50% - 4.0%	10,000,000	-	(225,000)	-	9,775,000	200,000	29,990
Bond Premium		121,619	-	-	(4,054)	117,565	-	-
Bond Discount		(136,600)	-	-	4,553	(132,047)	-	-
General Obligation Bonds 2012	.4%-1.4%	380,000	-	(90,000)	-	290,000	95,000	637
Sales Tax Revenue Bonds								
\$2,350,000 2008A	3.5% - 5.5%	1,875,000	-	(60,000)	-	1,815,000	60,000	16,067
Definitive Improvement 2017	1.50%	3,267,869	-	(103,487)	-	3,164,382	102,244	8,087
Compensated Absences		54,092	-	-	3,457	57,549	-	-
Other Debt:								
Net Pension Liability		1,794,432	-	-	(585,302)	1,209,130	-	-
Net OPEB Liability		78,623	-	-	(1,385)	77,238	-	-
		<u>\$ 20,539,375</u>	<u>\$ -</u>	<u>\$ (638,487)</u>	<u>\$ (584,751)</u>	<u>\$ 19,316,137</u>	<u>\$ 617,244</u>	<u>\$ 61,406</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

Governmental Activities

<u>\$2,350,000 Sales Tax Revenue Bonds</u>				<u>\$890,000 General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 60,000	\$ 95,050	\$ 155,050	\$ 95,000	\$ 3,276	\$ 98,276
2021	65,000	93,085	158,085	95,000	1,365	96,365
2022	65,000	89,825	154,825	100,000	700	100,700
2023	70,000	85,450	155,450	-	-	-
2024	70,000	81,950	151,950	-	-	-
2025-2029	420,000	349,947	769,947	-	-	-
2030-2034	530,000	223,300	753,300	-	-	-
2035-2039	535,000	60,638	595,638	-	-	-
	<u>\$ 1,815,000</u>	<u>\$ 1,079,245</u>	<u>\$ 2,894,245</u>	<u>\$ 290,000</u>	<u>\$ 5,341</u>	<u>\$ 295,341</u>

<u>\$3,500,000 Refunding Improvement 2015</u>				<u>2017 Definitive Warrant</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 160,000	\$ 79,495	\$ 239,495	\$ 102,244	\$ 49,114	\$ 151,358
2021	165,000	76,295	241,295	103,011	47,592	150,603
2022	170,000	73,295	243,295	103,783	46,058	149,841
2023	175,000	69,595	244,595	104,562	44,513	149,075
2024	175,000	66,095	241,095	105,346	40,598	145,944
2025-2029	950,000	256,600	1,206,600	538,700	178,958	717,658
2030-2034	1,115,000	104,720	1,219,720	559,205	137,791	696,996
2035-2039	-	-	-	580,493	95,057	675,550
2040-2044	-	-	-	602,590	50,696	653,286
2045-2048	-	-	-	364,448	8,077	372,525
	<u>\$ 2,910,000</u>	<u>\$ 726,095</u>	<u>\$ 3,636,095</u>	<u>\$ 3,164,382</u>	<u>\$ 698,454</u>	<u>\$ 3,862,836</u>

<u>2018 Refunding Improvement Bonds</u>				<u>Combined Debt Payments Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 200,000	\$ 356,382	\$ 556,382	\$ 617,244	\$ 226,935	\$ 844,179
2021	205,000	349,294	554,294	633,011	567,631	1,200,642
2022	215,000	341,944	556,944	653,783	551,822	1,205,605
2023	220,000	334,332	554,332	569,562	533,890	1,103,452
2024	230,000	326,457	556,457	580,346	515,100	1,095,446
2025-2029	1,265,000	1,504,444	2,769,444	3,173,700	2,289,949	5,463,649
2030-2034	1,500,000	1,263,030	2,763,030	3,704,205	1,728,841	5,433,046
2035-2039	1,785,000	976,120	2,761,120	2,900,493	1,131,815	4,032,308
2040-2044	2,130,000	621,352	2,751,352	2,732,590	672,048	3,404,638
2045-2048	2,025,000	165,700	2,190,700	2,389,448	173,777	2,563,225
	<u>\$ 9,775,000</u>	<u>\$ 6,239,055</u>	<u>\$ 16,014,055</u>	<u>\$ 17,954,382</u>	<u>\$ 8,391,807</u>	<u>\$ 26,346,189</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

The following is a summary of changes in business-type activities long-term debt by individual issue for the year ended December 31, 2019:

BUSINESS-TYPE ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
<u>Water</u>								
ND Public Finance Water Revenue Bonds	2.50%	\$ 70,000	\$ -	\$ (15,000)	\$ -	\$ 55,000	\$ 15,000	\$ 458
ND Public Finance	2.50%	352,000	-	(67,000)	-	285,000	68,000	2,375
ND Public Finance	2.00%	1,750,000	-	(90,000)	-	1,660,000	95,000	11,067
Net Pension Liability		315,059	-	-	(110,739)	204,320	-	-
Net OPEB Liability		13,804	-	-	(752)	13,052	-	-
		<u>\$ 2,500,863</u>	<u>\$ -</u>	<u>\$ (172,000)</u>	<u>\$ (111,491)</u>	<u>\$ 2,217,372</u>	<u>\$ 178,000</u>	<u>\$ 13,900</u>
<u>Wastewater</u>								
ND Public Finance-Clean Water Loan	2.00%	\$ 494,760	\$ -	\$ (1,000)	\$ -	\$ 493,760	\$ 1,000	\$ 250
ND Public Finance-Sewer Revenue Bonds	2.50%	60,000	-	(30,000)	-	30,000	30,000	3,292
Net Pension Liability		140,577	-	-	(42,563)	98,014	-	-
Net OPEB Liability		6,159	-	-	102	6,261	-	-
		<u>\$ 701,496</u>	<u>\$ -</u>	<u>\$ (31,000)</u>	<u>\$ (42,461)</u>	<u>\$ 628,035</u>	<u>\$ 31,000</u>	<u>\$ 3,542</u>
<u>Electric</u>								
Net Pension Liability		\$ 373,135	\$ -	\$ -	\$ (91,188)	\$ 281,947	\$ -	\$ -
Net OPEB Liability		16,349	-	-	1,661	18,010	-	-
		<u>\$ 389,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (89,527)</u>	<u>\$ 299,957</u>	<u>\$ -</u>	<u>\$ -</u>

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

	\$285,616 North Dakota Public Finance			North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 15,000	\$ 1,375	\$ 16,375	\$ 95,000	\$ 33,200	\$ 128,200
2021	20,000	1,000	21,000	95,000	31,300	126,300
2022	20,000	500	20,500	95,000	29,400	124,400
2023	-	-	-	100,000	27,500	127,500
2024	-	-	-	100,000	25,500	125,500
2025-2029	-	-	-	550,000	96,100	646,100
2030-2034	-	-	-	625,000	38,100	663,100
	<u>\$ 55,000</u>	<u>\$ 2,875</u>	<u>\$ 57,875</u>	<u>\$ 1,660,000</u>	<u>\$ 281,100</u>	<u>\$ 1,941,100</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

	North Dakota Public Finance			Combined Debt Payments Business-Type Activities-Water		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 68,000	\$ 7,125	\$ 75,125	\$ 178,000	\$ 41,700	\$ 219,700
2021	70,000	5,425	75,425	185,000	37,725	222,725
2022	72,000	3,675	75,675	187,000	33,575	220,575
2023	75,000	1,875	76,875	175,000	29,375	204,375
2024	-	-	-	100,000	25,500	125,500
2025-2029	-	-	-	550,000	96,100	646,100
2030-2034	-	-	-	625,000	38,100	663,100
	<u>\$ 285,000</u>	<u>\$ 18,100</u>	<u>\$ 303,100</u>	<u>\$ 2,000,000</u>	<u>\$ 302,075</u>	<u>\$ 2,302,075</u>

	North Dakota Public Finance			\$150,000 North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 1,000	\$ 9,895	\$ 10,895	\$ 30,000	\$ 750	\$ 30,750
2021	42,760	9,875	52,635	-	-	-
2022	45,000	9,855	54,855	-	-	-
2023	50,000	9,000	59,000	-	-	-
2024	50,000	7,100	57,100	-	-	-
2025-2029	250,000	20,500	270,500	-	-	-
2030-2034	55,000	1,100	56,100	-	-	-
	<u>\$ 493,760</u>	<u>\$ 67,325</u>	<u>\$ 561,085</u>	<u>\$ 30,000</u>	<u>\$ 750</u>	<u>\$ 30,750</u>

	Combined Debt Payments Business-Type Activities-Wastewater		
	Principal	Interest	Total
2020	\$ 31,000	\$ 10,645	\$ 41,645
2021	42,760	9,875	52,635
2022	45,000	9,855	54,855
2023	50,000	9,000	59,000
2024	50,000	7,100	57,100
2025-2029	250,000	20,500	270,500
2030-2034	55,000	1,100	56,100
	<u>\$ 523,760</u>	<u>\$ 68,075</u>	<u>\$ 591,835</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 5 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

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

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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, 2019, the City reported a liability of \$1,793,411 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019, the City's proportion was 0.153012 percent which was a decrease of 0.002427 percent from its proportion measured at June 30, 2018.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

For the year ended December 31, 2019, the City recognized pension expense of \$322,762. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,062	\$ 325,470
Changes in actuarial assumptions	670,151	575,382
Difference between projected and actual investment earnings	31,246	-
Changes in proportion	47,159	42,009
Contributions paid to NDPERS subsequent to the measurement date	59,557	-
Total	<u>\$ 809,175</u>	<u>\$ 942,861</u>

\$59,557 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020.

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

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2020	\$ 56,114
2021	27,667
2022	(59,623)
2023	(164,707)
2024	(52,694)

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary increases

Service at Beginning of Year	State Employee	Non-State Employee
0	12.00%	15.00%
1	9.50%	10.00%
2	7.25%	8.00%
3		
4		
Age		
Under 30	7.25%	10.00%
30-39	6.50%	7.50%
40-49	6.25%	6.75%
50-59	5.75%	6.50%
60+	5.00%	5.25%

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

Investment rate of return 7.5%, net of investment expenses

Cost-of-living adjustments None

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30.00%	6.25%
International Equity	21.00%	6.95%
Private Equity	7.00%	10.15%
Domestic Fixed Income	23.00%	2.11%
Global Real Assets	19.00%	5.41%

Discount Rate

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

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

For this purpose of this valuation, the expected rate of return on the pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount rate is 7.50%

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1% Decrease in Discount Rate 6.50%	Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
City's proportionate share of the NDPERS net pension liability:	\$ 2,571,366	\$ 1,793,411	\$ 1,139,794

Pension Plan Fiduciary Net Position

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

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. Effective August 1, 2019 the credit is expanded to also include an dental, vision and long term care plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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. Effective August 1, 2019 the credit is expanded to include any 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, 2019, the City reported a liability of \$114,561 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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 0.142633 percent.

For the year ended December 31, 2019, the City recognized OPEB expense of \$15,782. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,829	\$ 3,579
Changes in actuarial assumptions	13,654	-
Difference between projected and actual investment earnings	128	-
Changes in proportion	2,797	1,847
Contributions paid to NDPERS subsequent to the measurement date	9,536	-
Total	<u>\$ 28,944</u>	<u>\$ 5,426</u>

\$9,536 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020.

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Year Ending June 30:	OPEB Expense Amount
2020	\$ 2,311
2021	2,311
2022	3,378
2023	3,182
2024	1,972
2025	733
2026 and thereafter	95

Actuarial assumptions. The total OPEB liability in the July 1, 2019 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	7.25%, net of investment expenses, including inflation
Cost-of-living adjustments	None

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37.00%	6.00%
Small Cap Domestic Equities	9.00%	7.30%
International Equities	14.00%	6.95%
Core-plus Fixed income	40.00%	2.07%

Discount rate. The discount rate used to measure the total OPEB liability was 7.25%. 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, 2019, and July 1, 2018, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease in Discount Rate 6.25%	Discount Rate 7.25%	1% Increase in Discount Rate 8.25%
City's proportionate share of the NDPERS net OPEB liability:	\$ 146,222	\$ 114,561	\$ 87,459

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2019, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

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

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

Commitments

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

The City has entered into contracts with the engineer for the flood control project. In addition, the City awarded a construction contract in the amount of approximately \$39,559,281 for construction related to the flood control project. The amount of total costs completed as of December 31, 2018 was \$35,795,274 for the flood control project.

NOTE 8 - SCHEDULE OF TRANSFERS

Transfers to General Fund from	
Electric Fund	\$ 607,500
Water Fund	125,000
Wastewater Fund	25,000
Sanitation Fund	<u>27,500</u>
	<u>\$ 785,000</u>
Transfers to Internal Service Fund from	
Electric Fund	<u>\$ 37,250</u>
Transfer from General Fund to	
Electric Fund	<u>\$ 30,000</u>
Transfers from Sales Tax Fund to	
2015 Refunding Bond - Sales Tax	\$ 241,995
2018 Refunding Bond Series 2018A	589,319
2017 Definitive Warrant	<u>152,254</u>
	<u>\$ 983,568</u>

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

NOTE 9 - UNITY HOSPITAL PROJECT

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 10 - FUND BALANCES

Fund balance is categorized as follows:

	General	Grafton Community Development Sales Tax	Flood Control	Other Governmental Funds	Total
Fund Balances					
Nonspendable					
Prepays	\$ 10,321	\$ -	\$ -	\$ -	\$ 10,321
Total nonspendable	<u>10,321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,321</u>
Restricted					
Debt service	-	-	-	472,248	472,248
Flood control	-	-	4,177,018	-	4,177,018
Economic development	-	2,348,157	-	-	2,348,157
Community development	-	-	-	6,319	6,319
Cemetery	-	-	-	72,526	72,526
Lodging	-	-	-	42,390	42,390
Annual special assessment	-	-	-	(5,933)	(5,933)
Volunteer Fire Dept	-	-	-	708,750	708,750
Culture and recreation	-	-	-	168	168
Total restricted	<u>-</u>	<u>2,348,157</u>	<u>4,177,018</u>	<u>1,296,468</u>	<u>7,821,643</u>
Committed					
Street resurfacing	-	-	-	30,261	30,261
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,261</u>	<u>30,261</u>
Assigned					
Social Security	80,209	-	-	-	80,209
Advertising	18,589	-	-	-	18,589
Planning and zoning	80,214	-	-	-	80,214
Armory	65,679	-	-	-	65,679
Building improvements	230,692	-	-	-	230,692
Streets	564,485	-	-	-	564,485
Public safety	193,744	-	-	-	193,744
General government	59,756	-	-	-	59,756
Total assigned	<u>1,293,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,293,368</u>
Unassigned	<u>941,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>941,937</u>
Total Fund Balance	<u>\$ 2,245,626</u>	<u>\$ 2,348,157</u>	<u>\$ 4,177,018</u>	<u>\$ 1,326,729</u>	<u>\$ 10,097,530</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were made for unrecorded retainage and grant revenue in the prior year relating to the flood control construction project as well as property taxes due from the County that were overstated. As a result, beginning net position and fund balance have been restated as follows:

	Net Position		Fund Balance		
	Governmental Activities	Component Unit	General Fund	Capital Projects	Other Gov't Funds
January 1, 2019 as previously reported	\$ 29,606,257	\$ 2,516,101	\$ 2,072,847	\$ 7,091,296	\$ 1,261,768
Decrease in due from County	(75,041)	(2,616)	(68,017)	-	(7,024)
Increase in grants receivable	688,913	-	-	688,913	-
Increase in accounts payable	(918,551)	-	-	(918,551)	-
Increase in Construction in Progress	918,551	-	-	-	-
Prior Period Adjustment	<u>613,872</u>	<u>(2,616)</u>	<u>(68,017)</u>	<u>(229,638)</u>	<u>(7,024)</u>
January 1, 2019, as restated	<u>\$ 30,220,129</u>	<u>\$ 2,513,485</u>	<u>\$ 2,004,830</u>	<u>\$ 6,861,658</u>	<u>\$ 1,254,744</u>

NOTE 12 - NEW PRONOUNCEMENTS

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, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. 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, 2020. Earlier application is encouraged.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 13 - SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. The extent of the impact this matter will have on the City's results of operations and financial condition is uncertain.

Other than the event noted above, there were no significant events that occurred subsequent to the City's year end. Subsequent events have been evaluated through September 2, 2020, which is the date these financial statements were available to be issued.

CITY OF GRAFTON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 722,790	\$ 722,790	\$ 695,639	\$ (27,151)
Special assessments	-	-	11,440	11,440
Licenses and permits	124,950	124,950	134,188	9,238
Intergovernmental	570,485	594,438	672,171	77,733
Charges for services	3,000	3,000	8,893	5,893
Fines and forfeits	53,000	53,000	35,499	(17,501)
Miscellaneous	48,070	102,315	80,980	(21,335)
	<u>1,522,295</u>	<u>1,600,493</u>	<u>1,638,810</u>	<u>38,317</u>
TOTAL REVENUES				
	<u>1,522,295</u>	<u>1,600,493</u>	<u>1,638,810</u>	<u>38,317</u>
EXPENDITURES				
General government	530,265	555,405	524,878	30,527
Public safety	1,077,315	1,075,215	1,033,351	41,864
Highways and streets	581,610	815,988	569,552	246,436
Health and welfare	6,355	6,355	5,547	808
Other	95,580	112,580	20,628	91,952
Capital outlay	177,300	69,495	-	69,495
Debt service-principal	-	-	-	-
	<u>2,468,425</u>	<u>2,635,038</u>	<u>2,153,956</u>	<u>481,082</u>
TOTAL EXPENDITURES				
	<u>2,468,425</u>	<u>2,635,038</u>	<u>2,153,956</u>	<u>481,082</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(946,130)	(1,034,545)	(515,146)	519,399
OTHER SOURCES (USES)				
Proceeds from sale of capital assets	-	-	942	942
Transfer from other funds	785,000	785,000	791,080	6,080
Transfer to other funds	-	-	(36,080)	(36,080)
	<u>785,000</u>	<u>785,000</u>	<u>755,942</u>	<u>(29,058)</u>
TOTAL OTHER SOURCES (USES)				
	<u>785,000</u>	<u>785,000</u>	<u>755,942</u>	<u>(29,058)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (161,130)	\$ (249,545)	240,796	\$ 490,341
	<u><u>\$ (161,130)</u></u>	<u><u>\$ (249,545)</u></u>	<u>240,796</u>	<u><u>\$ 490,341</u></u>
FUND BALANCE - JANUARY 1			<u>2,072,847</u>	
FUND BALANCE - DECEMBER 31			<u><u>\$ 2,313,643</u></u>	

See Note to the Budgetary Comparison Schedules

CITY OF GRAFTON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
GRAFTON COMMUNITY DEVELOPMENT SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 850,000	\$ 850,000	\$ 932,860	\$ 82,860
Special assessments	50,575	50,575	24,361	(26,214)
Intergovernmental	350	350	22,315	21,965
Loan repayments	13,195	13,195	-	(13,195)
Miscellaneous	75,510	75,510	118,942	43,432
	<u>989,630</u>	<u>989,630</u>	<u>1,098,478</u>	<u>108,848</u>
TOTAL REVENUES				
	<u>989,630</u>	<u>989,630</u>	<u>1,098,478</u>	<u>108,848</u>
EXPENDITURES				
Other	1,035,855	1,119,630	135,595	984,035
TOTAL EXPENDITURES	<u>1,035,855</u>	<u>1,119,630</u>	<u>135,595</u>	<u>984,035</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(46,225)	(130,000)	962,883	1,092,883
OTHER SOURCES (USES)				
Transfer to other funds	<u>(981,655)</u>	<u>(1,131,655)</u>	<u>(983,568)</u>	<u>148,087</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (1,027,880)</u>	<u>\$ (1,261,655)</u>	<u>(20,685)</u>	<u>\$ 1,240,970</u>
FUND BALANCE - JANUARY 1			<u>2,368,842</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 2,348,157</u>	

See Note to the Budgetary Comparison Schedules

CITY OF GRAFTON, NORTH DAKOTA
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
DECEMBER 31, 2019

NOTE 1 BUDGETS

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

The preliminary budget shall set forth specifically:

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

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

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

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

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

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

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.153012%	\$ 1,793,411	\$ 1,591,581	112.68%	71.66%
2018	0.155439%	2,623,203	1,596,853	164.27%	62.80%
2017	0.148967%	2,394,389	1,520,716	157.45%	61.98%
2016	0.151409%	1,475,628	1,525,846	96.71%	70.46%
2015	0.146746%	997,849	1,307,327	76.33%	77.15%

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

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

See Note to the Required Supplementary Information

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

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2019	\$ 118,557	\$ 118,557	\$ -	\$ 1,665,120	7.12%
2018	116,997	116,997	-	1,643,211	7.12%
2017	112,789	112,789	-	1,584,109	7.12%
2016	109,533	109,533	-	1,538,381	7.12%
2015	102,973	102,973	-	1,446,251	7.12%

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

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

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF SHARE OF THE OPEB LIABILITY
DECEMBER 31, 2019

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.142633%	\$ 114,561	\$ 1,591,581	7.20%	63.13%
2018	0.145936%	114,935	1,596,853	7.20%	61.89%

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

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

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF CONTRIBUTIONS TO OPEB PLAN
DECEMBER 31, 2019

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2019	\$ 18,982	\$ 18,982	\$ -	\$ 1,665,120	1.14%
2018	18,733	18,733	-	1,643,211	1.14%

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

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

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

NOTE 1 CHANGES OF ASSUMPTIONS

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2019 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Non major Governmental Funds</u>
Assets				
Cash	\$ 508,037	\$ 112,178	\$ 30,261	\$ 650,476
Investments	349,280	350,000	-	699,280
Taxes receivable	1,265	4,001	-	5,266
Special assessments receivable	-	86,530	-	86,530
Interest receivable	486	9,739	-	10,225
Due from other governments	<u>263</u>	<u>832</u>	<u>-</u>	<u>1,095</u>
Total Assets	<u>\$ 859,331</u>	<u>\$ 563,280</u>	<u>\$ 30,261</u>	<u>\$ 1,452,872</u>
Liabilities				
Accounts payable	<u>\$ 33,846</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 34,346</u>
Total liabilities	<u>33,846</u>	<u>500</u>	<u>-</u>	<u>34,346</u>
Deferred Inflows of Resources				
Unavailable revenue- property taxes	1,265	4,001	-	5,266
Uncertified special assessments	<u>-</u>	<u>86,531</u>	<u>-</u>	<u>86,531</u>
Total deferred inflows of resources	<u>1,265</u>	<u>90,532</u>	<u>-</u>	<u>91,797</u>
Fund Balance				
Restricted	824,220	472,248	-	1,296,468
Unrestricted				
Committed	<u>-</u>	<u>-</u>	<u>30,261</u>	<u>30,261</u>
Total fund balance	<u>824,220</u>	<u>472,248</u>	<u>30,261</u>	<u>1,326,729</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 859,331</u>	<u>\$ 563,280</u>	<u>\$ 30,261</u>	<u>\$ 1,452,872</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Non major Governmental Funds
Revenues				
Taxes	\$ 31,802	\$ 286,335	\$ -	\$ 318,137
Special assessments	-	28,334	-	28,334
Intergovernmental	542	1,716	-	2,258
Other	404,107	16,238	-	420,345
Total revenues	<u>436,451</u>	<u>332,623</u>	<u>-</u>	<u>769,074</u>
Expenditures				
Current				
General government	29,176	-	-	29,176
Public safety	296,822	-	-	296,822
Other	-	84,155	-	84,155
Capital outlay	33,846	-	-	33,846
Debt Service:				
Principal	-	638,486	-	638,486
Interest	-	598,172	-	598,172
Total expenditures	<u>359,844</u>	<u>1,320,813</u>	<u>-</u>	<u>1,680,657</u>
Excess Revenues Over (Under) Expenditures	76,607	(988,190)	-	(911,583)
Other Financing Sources (Uses)				
Operating transfers in	<u>-</u>	<u>983,568</u>	<u>-</u>	<u>983,568</u>
Excess Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	<u>76,607</u>	<u>(4,622)</u>	<u>-</u>	<u>71,985</u>
Fund Balance - January 1, as originally reported	749,299	482,208	30,261	1,261,768
Prior Period Adjustment	<u>(1,686)</u>	<u>(5,338)</u>	<u>-</u>	<u>(7,024)</u>
Fund Balance - January 1 as restated	<u>747,613</u>	<u>476,870</u>	<u>30,261</u>	<u>1,254,744</u>
Fund Balance - December 31	<u>\$ 824,220</u>	<u>\$ 472,248</u>	<u>\$ 30,261</u>	<u>\$ 1,326,729</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2019

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Volunteer Fire</u>	<u>Total</u>
Assets								
Cash	\$ 8,460	\$ 46,836	\$ 42,390	\$ 19,394	\$ 168	\$ 6,319	\$ 384,470	\$ 508,037
Investments	-	25,000	-	-	-	-	324,280	349,280
Taxes receivable	-	981	-	284	-	-	-	1,265
Interest receivable	-	486	-	-	-	-	-	486
Due from other governments	-	204	-	59	-	-	-	263
Total Assets	<u>\$ 8,460</u>	<u>\$ 73,507</u>	<u>\$ 42,390</u>	<u>\$ 19,737</u>	<u>\$ 168</u>	<u>\$ 6,319</u>	<u>\$ 708,750</u>	<u>\$ 859,331</u>
Liabilities								
Accounts payable	\$ -	\$ -	\$ -	\$ 33,846	\$ -	\$ -	\$ -	\$ 33,846
Deferred Inflows of Resources								
Unavailable revenue- property taxes	-	981	-	284	-	-	-	1,265
Fund Balance								
Restricted	<u>8,460</u>	<u>72,526</u>	<u>42,390</u>	<u>(14,393)</u>	<u>168</u>	<u>6,319</u>	<u>708,750</u>	<u>824,220</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 8,460</u>	<u>\$ 73,507</u>	<u>\$ 42,390</u>	<u>\$ 19,737</u>	<u>\$ 168</u>	<u>\$ 6,319</u>	<u>\$ 708,750</u>	<u>\$ 859,331</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Volunteer Fire</u>	<u>Total</u>
Revenues								
Taxes	\$ 341	\$ 11,704	\$ 15,029	\$ 4,728	\$ -	\$ -	\$ -	\$ 31,802
Intergovernmental	-	421	-	121	-	-	-	542
Other	169	2,457	709	393	-	5,300	395,079	404,107
Total revenues	<u>510</u>	<u>14,582</u>	<u>15,738</u>	<u>5,242</u>	<u>-</u>	<u>5,300</u>	<u>395,079</u>	<u>436,451</u>
Expenditures								
Current								
General government	-	11,176	18,000	-	-	-	-	29,176
Public safety	-	-	-	-	-	-	296,822	296,822
Other	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	33,846	-	-	-	33,846
Total expenditures	<u>-</u>	<u>11,176</u>	<u>18,000</u>	<u>33,846</u>	<u>-</u>	<u>-</u>	<u>296,822</u>	<u>359,844</u>
Excess Revenues Over (Under)								
Expenditures	<u>510</u>	<u>3,406</u>	<u>(2,262)</u>	<u>(28,604)</u>	<u>-</u>	<u>5,300</u>	<u>98,257</u>	<u>76,607</u>
Fund Balance - January 1	8,291	69,120	44,652	15,556	168	1,019	610,493	749,299
Prior Period Adjustment	<u>(341)</u>	<u>-</u>	<u>-</u>	<u>(1,345)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,686)</u>
Fund Balance - January 1 as restated	<u>7,950</u>	<u>69,120</u>	<u>44,652</u>	<u>14,211</u>	<u>168</u>	<u>1,019</u>	<u>610,493</u>	<u>747,613</u>
Fund Balance - December 31	<u>\$ 8,460</u>	<u>\$ 72,526</u>	<u>\$ 42,390</u>	<u>\$ (14,393)</u>	<u>\$ 168</u>	<u>\$ 6,319</u>	<u>\$ 708,750</u>	<u>\$ 824,220</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2019

	2017	2008-A	2012	2015	2018	
	Definitive Warrant	Sales Tax	General	Refunding Bond	Refunding Bond	
		Revenue Bonds	Obligation	Sales Tax	Series 2018A	Total
Assets						
Cash	\$ -	\$ 108,847	\$ 3,331	\$ -	\$ -	\$ 112,178
Investments	-	50,000	300,000	-	-	350,000
Taxes receivable	-	-	4,001	-	-	4,001
Special assessments receivable	-	-	86,530	-	-	86,530
Interest receivable	-	1,901	7,838	-	-	9,739
Due from other governments	-	-	832	-	-	832
Total Assets	<u>\$ -</u>	<u>\$ 160,748</u>	<u>\$ 402,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 563,280</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ 500	\$ -	\$ -	\$ 500
Deferred Inflows of Resources						
Unavailable revenue-property taxes			4,001	-	-	4,001
Uncertified special assessments	-	-	86,531	-	-	86,531
Total Deferred Inflows of Resources	-	-	90,532	-	-	90,532
Fund Balance						
Restricted	-	160,748	311,500	-	-	472,248
Total fund balance	-	160,748	311,500	-	-	472,248
Total Deferred Inflows of Resources and Fund Balance	<u>\$ -</u>	<u>\$ 160,748</u>	<u>\$ 402,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 563,280</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2017 Definitive Warrant	2008-A Sales Tax Revenue Bonds	2012 General Obligation	2015 Refunding Bond Sales Tax	2018 Refunding Bond Series 2018A	Total
Revenues:						
Real estate taxes	\$ -	\$ -	\$ 53,119	\$ -	\$ -	\$ 53,119
Sales taxes	-	233,216	-	-	-	233,216
Special assessments	-	-	28,334	-	-	28,334
Intergovernmental	-	-	1,716	-	-	1,716
Other	-	7,324	8,914	-	-	16,238
Total revenues	-	240,540	92,083	-	-	332,623
Expenditures:						
Other	-	84,155				84,155
Debt Service:						
Principal	103,486	60,000	90,000	160,000	225,000	638,486
Interest	48,768	98,250	4,840	81,995	364,319	598,172
Total expenditures	152,254	242,405	94,840	241,995	589,319	1,320,813
Excess of Revenues Over (Under) Expenditures Before Other Financing Sources	(152,254)	(1,865)	(2,757)	(241,995)	(589,319)	(988,190)
Other Financing Sources (Uses)						
Operating transfer in	152,254	-	-	241,995	589,319	983,568
Excess of Revenues over (under) Expenditures	-	(1,865)	(2,757)	-	-	(4,622)
Fund Balance (Deficit), January 1	-	162,613	319,595	-	-	482,208
Prior Period Adjustment	-	-	(5,338)	-	-	(5,338)
Fund Balance - January 1 as restated	-	162,613	314,257	-	-	476,870
Fund Balance (Deficit), December 31	\$ -	\$ 160,748	\$ 311,500	\$ -	\$ -	\$ 472,248

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
DECEMBER 31, 2019

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

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET – COMPONENT UNITS
DECEMBER 31, 2019

	<u>Airport Authority</u>
ASSETS	
Cash and cash equivalents	\$ 55,751
Investments	100,000
Receivables:	
Grants	19,357
Accounts	-
Taxes	1,962
Interest	1,905
Due from other governments	408
Prepaid insurance	838
TOTAL ASSETS	<u><u>\$ 180,221</u></u>
 LIABILITIES	
Liabilities	
Accounts payable	\$ 1,709
Total liabilities	<u>1,709</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue-property taxes	<u>1,962</u>
 FUND BALANCE	
Restricted	<u>176,550</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 180,221</u></u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Airport Authority</u>
Revenues	
Taxes	\$ 26,039
Intergovernmental	196,288
Other	<u>31,973</u>
Total revenues	<u>254,300</u>
 Expenditures	
Current	
Public safety	
Other	50,947
Capital Outlay	<u>217,533</u>
Total expenditures	<u>268,480</u>
 Excess Revenues and Other Financing Sources Over (Under) Expenditures	 (14,180)
 Fund Balance, January 1	 193,346
 Prior Period Adjustment	 <u>(2,616)</u>
 Fund Balance, January 1 as restated	 <u>190,730</u>
 Fund Balance, December 31	 <u><u>\$ 176,550</u></u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 2, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2019-01 that we consider to be a material weakness.

Compliance and Other Matters

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

City's Response to Finding

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

Purpose of this Report

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



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

September 2, 2020

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019

Control Deficiency 2019-001 – Material Weakness

Criteria:

An appropriate system of internal control requires the entity to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition:

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the Council. However, the entity currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The entity has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause:

The entity elected to not allocate resources for the preparation of the financial statements.

Effect:

There is an increased risk of material misstatement to the entity's financial statements.

Recommendation:

We recommend the entity consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the entity 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.

Response:

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