

**CITY OF GRAFTON  
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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**CITY OF GRAFTON, NORTH DAKOTA**  
**OFFICIAL DIRECTORY**  
**AS OF DECEMBER 31, 2020**

<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	2024
Greg Young	Council Member - Second Ward	2024
Phil Ray	Council Member - Third Ward	2024
Don Hutson	Council Member - Fourth Ward	2024

OFFICERS AND MAYOR

Greg Young	President
Don Hutson	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 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, 2020, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota, as of December 31, 2020, 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's basic financial statements. The additional schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The additional schedules listed in the table of contents as supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures, including records used to prepare the basic financial statements or to 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 additional schedules and

schedule of expenditures of federal awards are fairly presented in all material respects in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2021, on our consideration of the City of Grafton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Grafton, North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Grafton's internal control over financial reporting and compliance.



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

July 29, 2021

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020. 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, 2020**

**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, 2020**

*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, 2020 and 2019 is summarized below; see the statement of net position in the financial statements for more detail.

	Governmental Activities		Business-Type Activities (Restated)	
	12/31/20	12/31/19	12/31/20	12/31/19
<b>ASSETS</b>				
Current assets	\$ 11,804,949	\$ 12,068,583	\$ 5,655,045	\$ 5,142,827
Capital assets				
Property, plant and equipment	16,447,361	15,927,355	36,463,523	35,986,836
Construction in progress	36,761,665	33,510,914	35,061	153,344
Less accumulated depreciation	(5,180,827)	(4,745,410)	(20,845,438)	(20,132,426)
Other non-current assets	1,755,000	1,815,000	-	-
<b>TOTAL ASSETS</b>	<b>61,588,148</b>	<b>58,576,442</b>	<b>21,308,191</b>	<b>21,150,581</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,970,770</b>	<b>565,067</b>	<b>888,355</b>	<b>273,052</b>
<b>LIABILITIES</b>				
Current Liabilities	636,974	1,337,322	741,467	840,532
Long-term Liabilities				
Bonds and notes payable-Due within one year	701,478	674,793	227,760	209,000
Bonds and notes payable-Noncurrent portion	16,719,271	17,354,976	2,087,000	2,314,760
Net pension liability	3,283,343	1,209,130	1,480,017	584,281
Net OPEB Liability	83,195	77,238	37,502	37,323
<b>TOTAL LIABILITIES</b>	<b>21,424,261</b>	<b>20,653,459</b>	<b>4,573,746</b>	<b>3,985,896</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>485,290</b>	<b>639,342</b>	<b>218,749</b>	<b>308,945</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	30,675,916	26,720,639	13,338,386	13,483,994
Restricted	8,202,559	8,276,974	145,297	364,068
Unrestricted	2,770,892	2,851,095	3,920,368	3,280,730
<b>TOTAL NET POSITION</b>	<b>\$ 41,649,367</b>	<b>\$ 37,848,708</b>	<b>\$ 17,404,051</b>	<b>\$ 17,128,792</b>

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, 2020**

**Governmental Activities:**

The City of Grafton's governmental activities net position increased \$3,800,659 for the year ended December 31, 2020. 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 \$190,757. 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		Business-Type Activities (Restated)	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>REVENUES</b>				
Program Revenues:				
Charges for services	\$ 326,659	\$ 367,144	\$ 8,761,619	\$ 8,902,241
Capital grants and contributions	3,083,910	8,030,568	30,049	-
Total program revenues	3,410,569	8,397,712	8,791,668	8,902,241
General Revenues:				
Taxes	2,220,357	1,896,103	-	-
Special assessments	-	11,898	-	-
Intergovernmental	1,751,867	696,744	-	-
Other	455,215	797,704	58,969	225,409
Total general revenues	4,427,439	3,402,449	58,969	225,409
Total revenues	7,838,008	11,800,161	8,850,637	9,127,650
<b>EXPENSES</b>				
Governmental:				
General government	1,153,137	679,127	-	-
Public safety	1,387,575	1,514,770	-	-
Highways and streets	945,620	1,089,138	-	-
Health and welfare	501,792	45,972	-	-
Public works	-	827,784	-	-
Other	240,526	242,429	-	-
Interest	610,198	564,612	-	-
Loss on Sale of Capital Assets	20,751	-	-	-
Business type activities operating expenses:				
Electric	-	-	5,673,865	5,681,870
Water	-	-	1,076,129	1,135,505
Wastewater	-	-	584,968	552,093
Sanitation	-	-	397,508	395,163
Pest control	-	-	105,160	77,634
Total expenses	4,859,599	4,963,832	7,837,630	7,842,265
Change in net position before transfers	2,978,409	6,836,329	1,013,007	1,285,385
Transfers in (out)	822,250	792,250	(822,250)	(792,250)
Change in net position	3,800,659	7,628,579	190,757	493,135
Net position beginning of year	37,848,708	30,220,129	17,213,294	16,720,159
Net position end of year	\$ 41,649,367	\$ 37,848,708	\$ 17,404,051	\$ 17,213,294

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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 \$10,690,611.

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 \$1,405,025 while the total fund balance was \$2,892,998. 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 49% of the total general fund balance and 58% of total general fund expenditures.

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

Development Sales Tax	\$ 2,570,515
Flood Control	3,400,754
Other Governmental Funds	1,826,344

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, 2020**

**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 \$3,920,368. This balance consisted of \$1,892,455 in the Electric fund, \$1,333,099 in the Water fund, \$82,723 in the Wastewater fund, and \$292,979 and \$319,111 in the Sanitation and Pest Control funds, respectively.

**Governmental Fund Budgetary Highlights**

The General Fund revenue and expenditure amendments were related to grants and state payments. The CARES Act provided a reimbursement to the municipalities in response to the coronavirus pandemic. The State issues a Fire Insurance Tax payment annually which is forwarded to the Grafton Volunteer Fire Corp. upon receipt. The amount is unpredictable to budget, so the policy is to wait until the amount is known and amend the budget at that time.

Assigned funds are appropriations from previous budgets reserved by the City Council to be spent at a later date. The amounts were transferred from the assigned fund balance and the 2020 budget was increased as expenditures were made.

The Annual Special Assessments Fund expenditures were amended \$6,000 to pay delinquent specials on newly acquired property.

The Building Fund was amended to reflect the unbudgeted Energy Grant received for the Fire Halls where the expenditures totaled \$53,235. The revenues were also amended to account for the 50% grant reimbursement and local share reimbursement from other entities.

The Airport Fund was amended \$99,563 for drainage studies and design. The 100% grant will reimburse funds over the period 2020-2021.

Sales tax proceeds were higher than budgeted in 2020. Proceeds over the amount of the 2008-A Sales Tax Revenue Fund bond payment are forwarded to Unity Medical Center and the \$55,000 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, 2020 amounted to \$63,681,345 (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 \$3,335,340 in the governmental activities and a decrease of \$354,608 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, 2020**

**Debt**

At year-end, the City had outstanding long-term debt of \$24,619,570, an increase of \$2,158,068 compared to last year. Additional information on the City of Grafton's debt can be found in Note 4 beginning on page 35 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 \$4,287,000, 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, 2020:

GOVERNMENTAL ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year	Accrued Interest
<b>Refunding Improvement Bonds:</b>								
\$3,500,000 of 2015	1.25% - 3.1%	\$ 2,910,000	\$ -	\$ (160,000)	\$ -	\$ 2,750,000	\$ 165,000	\$ 6,358
Bond Premium		32,320	-	-	(2,020)	30,300	-	-
\$10,000,000 of 2018	3.50% - 4.0%	9,775,000	-	(200,000)	-	9,575,000	205,000	58,814
Bond Premium		117,565	-	-	(4,054)	113,511	-	-
Bond Discount		(132,047)	-	-	4,553	(127,494)	-	-
General Obligation Bonds 2012	.4%-1.4%	290,000	-	(95,000)	-	195,000	95,000	455
<b>Sales Tax Revenue Bonds</b>								
\$2,350,000 2008A*	3.5% - 5.5%	1,815,000	-	(60,000)	-	1,755,000	65,000	15,617
Definitive Improvement 2017	1.50%	3,164,382	-	(103,416)	-	3,060,966	103,012	8,078
Compensated Absences		57,549	-	-	10,917	68,466	-	-
<b>Other Debt:</b>								
Net Pension Liability		1,209,130	-	-	2,074,213	3,283,343	-	-
Net OPEB Liability		77,239	-	-	5,956	83,195	-	-
		<u>\$ 19,316,138</u>	<u>\$ -</u>	<u>\$ (618,416)</u>	<u>\$ 2,089,565</u>	<u>\$ 20,787,287</u>	<u>\$ 633,012</u>	<u>\$ 89,322</u>
<b>BUSINESS-TYPE ACTIVITIES</b>								
<u>Water</u>								
ND Public Finance Water Revenue Bonds	2.50%	\$ 55,000	\$ -	\$ (15,000)	\$ -	\$ 40,000	\$ 20,000	\$ 334
ND Public Finance	2.50%	285,000	-	(68,000)	-	217,000	70,000	1,808
ND Public Finance	2.00%	1,660,000	-	(95,000)	-	1,565,000	95,000	10,433
Net Pension Liability		204,320	-	-	237,544	441,864	-	-
Net OPEB Liability		13,052	-	-	(1,856)	11,196	-	-
		<u>\$ 2,217,372</u>	<u>\$ -</u>	<u>\$ (178,000)</u>	<u>\$ 235,688</u>	<u>\$ 2,275,060</u>	<u>\$ 185,000</u>	<u>\$ 12,575</u>
<u>Wastewater</u>								
ND Public Finance-Clean Water Loan	2.00%	\$ 493,760	\$ -	\$ (1,000)	\$ -	\$ 492,760	\$ 42,760	\$ 3,285
ND Public Finance-Sewer Revenue Bonds	2.50%	30,000	-	(30,000)	-	-	-	-
Net Pension Liability		98,014	-	-	161,696	259,710	-	-
Net OPEB Liability		6,261	-	-	320	6,581	-	-
		<u>\$ 628,035</u>	<u>\$ -</u>	<u>\$ (31,000)</u>	<u>\$ 162,016</u>	<u>\$ 759,051</u>	<u>\$ 42,760</u>	<u>\$ 3,285</u>
<u>Electric</u>								
Net Pension Liability		\$ 281,947	\$ -	\$ -	\$ 496,500	\$ 778,447	\$ -	\$ -
Net OPEB Liability		18,010	-	-	1,715	19,725	-	-
		<u>\$ 299,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 498,215</u>	<u>\$ 798,172</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Economic Factors and Next Year's Budgets and Rates

Construction of a permanent flood control project is 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 75% 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.

Unity Medical Center has completed a \$20 million, 40,000 square foot expansion which included upgrades to their surgery center, emergency department, rehab services and patient rooms.

Utility rates continue to remain stable. The rate for sewer use, which is based on water consumption, increased on January 1, 2021 from \$2.55/gallon to \$3.30/gallon.

The value of a mill for the 2020 budget was \$7,643 and is approximately \$7,972 for 2021.

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](http://www.graftongov.com).



**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,116,340	\$ 2,869,251	\$ 10,985,591	\$ 90,152
Restricted cash and cash equivalents	-	145,297	145,297	-
Investments	2,644,122	1,235,266	3,879,388	75,000
Receivables:				
Taxes	57,335	-	57,335	1,847
Accounts (net of uncollectibles)	-	1,015,108	1,015,108	-
Other	152,294	17,585	169,879	53,298
Special assessments	425,067	-	425,067	-
Interest	5,741	1,803	7,544	365
Notes receivable	199,390	30,691	230,081	-
Due from other governments	93,952	-	93,952	181
Prepaid expense	40,827	30,207	71,034	838
Inventory	69,881	309,837	379,718	-
Capital Assets-not being depreciated				
Land	2,284,361	964,472	3,248,833	-
Construction in progress	36,761,665	35,061	36,796,726	-
Capital Assets				
Property, plant and equipment	14,163,000	35,499,051	49,662,051	2,917,335
Less accumulated depreciation	(5,180,827)	(20,845,438)	(26,026,265)	(822,311)
Other Assets				
Notes receivable-Unity Hospital	1,755,000	-	1,755,000	-
<b>TOTAL ASSETS</b>	<b>61,588,148</b>	<b>21,308,191</b>	<b>82,896,339</b>	<b>2,316,705</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Cost sharing defined benefit pension plan-NDPERS	1,945,710	877,058	2,822,768	-
Cost sharing defined OPEB Plan-NDPERS	25,060	11,297	36,357	-
Total deferred outflows	<u>1,970,770</u>	<u>888,355</u>	<u>2,859,125</u>	-
<b>LIABILITIES</b>				
Accounts payable	442,648	428,461	871,109	3,829
Salaries payable	24,438	10,687	35,125	-
Vacations payable	3,488	23,884	27,372	-
Interest payable	89,322	15,860	105,182	-
Due to other governments	77,078	-	77,078	-
Customer deposits	-	262,575	262,575	-
Bonds and notes payable-due within one year	633,012	227,760	860,772	-
Noncurrent liabilities				
Compensated absences	68,466	-	68,466	-
Bonds and notes payable-due in more than one year	16,719,271	2,087,000	18,806,271	-
Net pension liability	3,283,343	1,480,017	4,763,360	-
Net OPEB liability	83,195	37,502	120,697	-
<b>TOTAL LIABILITIES</b>	<b>21,424,261</b>	<b>4,573,746</b>	<b>25,998,007</b>	<b>3,829</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Cost sharing defined benefit pension plan-NDPERS	482,226	217,369	699,595	-
Cost sharing defined benefit OPEB Plan-NDPERS	3,064	1,380	4,444	-
Total deferred inflows	<u>485,290</u>	<u>218,749</u>	<u>704,039</u>	-
<b>NET POSITION</b>				
Net investment in capital assets	30,675,916	13,338,386	44,014,302	2,095,024
Restricted-Debt service	536,414	145,297	681,711	-
Restricted-Flood control	3,400,754	-	3,400,754	-
Restricted-Economic development	2,918,509	-	2,918,509	-
Restricted-other	1,346,882	-	1,346,882	217,852
Unrestricted	2,770,892	3,920,368	6,691,260	-
<b>TOTAL NET POSITION</b>	<b>\$ 41,649,367</b>	<b>\$ 17,404,051</b>	<b>\$ 59,053,418</b>	<b>\$ 2,312,876</b>

See Notes to the Financial Statements



**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
Functions/Programs	Expenses				Governmental Activities	Business-Type Activities	Total	
<b>Governmental Activities</b>								
Current								
General government	\$ 1,153,137	\$ 130,649	\$ -	\$ -	\$ (1,022,488)	\$ -	\$ (1,022,488)	\$ -
Public safety	1,387,575	33,631	-	-	(1,353,944)	-	(1,353,944)	-
Highways and streets	945,620	162,379	-	-	(783,241)	-	(783,241)	-
Health and welfare	501,792	-	-	641,526	139,734	-	139,734	-
Public Works	-	-	-	2,442,384	2,442,384	-	2,442,384	-
Other	240,526	-	-	-	(240,526)	-	(240,526)	-
Debt service								
Interest	610,198	-	-	-	(610,198)	-	(610,198)	-
Loss on Sale of Capital Assets	20,751	-	-	-	(20,751)	-	(20,751)	-
Total Governmental Activities	4,859,599	326,659	-	3,083,910	(1,449,030)	-	(1,449,030)	-
<b>Business-Type Activities</b>								
Electric	5,673,865	6,592,329	-	-	-	918,464	918,464	-
Water	1,076,129	1,117,095	-	-	-	40,966	40,966	-
Wastewater	584,968	493,245	-	30,049	-	(61,674)	(61,674)	-
Sanitation	397,508	421,354	-	-	-	23,846	23,846	-
Pest control	105,160	137,596	-	-	-	32,436	32,436	-
Total Business-Type Activities	7,837,630	8,761,619	-	30,049	-	954,038	954,038	-
Total Primary Government	\$ 12,697,229	\$ 9,088,278	\$ -	\$ 3,113,959	(1,449,030)	954,038	(494,992)	-
<b>Component Unit</b>								
Airport Authority	\$ 414,845	\$ -	\$ -	\$ 276,585	-	-	-	(138,260)
Total Component Units	\$ 414,845	\$ -	\$ -	\$ 276,585	-	-	-	(138,260)
General Receipts:								
Taxes					2,220,357	-	2,220,357	26,302
Intergovernmental (not restricted for specific program)								
State and federal					1,751,867	-	1,751,867	-
Interest earnings					96,476	44,968	141,444	-
Other general revenues					358,739	14,001	372,740	40,553
Gain (loss) on sale of capital assets					-	-	-	2,499
Transfers					822,250	(822,250)	-	-
Total General Receipts, Transfers and Sale of Capital Assets					5,249,689	(763,281)	4,486,408	69,354
Changes in Net Position					3,800,659	190,757	3,991,416	(68,906)
Net Position, January 1					37,848,708	17,128,792	54,977,500	2,381,782
Prior Period Adjustment - Note 11					-	84,502	84,502	-
Net Position - Beginning as Restated					37,848,708	17,213,294	55,062,002	2,381,782
Net Position, December 31					\$ 41,649,367	\$ 17,404,051	\$ 59,053,418	\$ 2,312,876

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2020**

		<u>Special Revenue</u>	<u>Capital Projects</u>		
		Grafton Community Development	Flood Control	Other Governmental Funds	
	<u>General</u>	<u>Sales Tax</u>			<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,321,623	\$ 1,209,740	\$ 3,442,192	\$ 1,119,905	\$ 8,093,460
Investments	501,270	1,252,580	-	890,272	2,644,122
Receivables:					
Taxes	50,872	-	-	6,463	57,335
Accounts (net of uncollectibles)	88,376	-	-	-	88,376
Other	-	-	152,294	-	152,294
Special assessments	19,766	347,994	-	57,307	425,067
Interest	623	-	-	5,118	5,741
Notes receivable	-	199,390	-	-	199,390
Due from other governments	4,956	-	-	620	5,576
Prepaid expense	38,100	-	-	-	38,100
	<u>3,025,586</u>	<u>3,009,704</u>	<u>3,594,486</u>	<u>2,079,685</u>	<u>11,709,461</u>
Total Assets	<u>\$ 3,025,586</u>	<u>\$ 3,009,704</u>	<u>\$ 3,594,486</u>	<u>\$ 2,079,685</u>	<u>\$ 11,709,461</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 38,462	\$ 14,117	\$ 193,732	\$ 189,571	\$ 435,882
Salaries payable	23,488	-	-	-	23,488
Due to other governments	-	77,078	-	-	77,078
	<u>61,950</u>	<u>91,195</u>	<u>193,732</u>	<u>189,571</u>	<u>536,448</u>
Total Liabilities	<u>61,950</u>	<u>91,195</u>	<u>193,732</u>	<u>189,571</u>	<u>536,448</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue- property taxes	50,872	-	-	6,463	57,335
Uncertified special assessments	19,766	347,994	-	57,307	425,067
Total Deferred Inflows of Resources	<u>70,638</u>	<u>347,994</u>	<u>-</u>	<u>63,770</u>	<u>482,402</u>
<b>FUND BALANCE</b>					
Nonspendable	38,100	-	-	-	38,100
Restricted	-	2,570,515	3,400,754	1,819,526	7,790,795
Unrestricted					
Committed	-	-	-	30,261	30,261
Assigned	1,449,873	-	-	-	1,449,873
Unassigned	1,405,025	-	-	(23,443)	1,381,582
	<u>2,892,998</u>	<u>2,570,515</u>	<u>3,400,754</u>	<u>1,826,344</u>	<u>10,690,611</u>
Total Fund Balance	<u>2,892,998</u>	<u>2,570,515</u>	<u>3,400,754</u>	<u>1,826,344</u>	<u>10,690,611</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,025,586</u>	<u>\$ 3,009,704</u>	<u>\$ 3,594,486</u>	<u>\$ 2,079,685</u>	<u>\$ 11,709,461</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, 2020**

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

Total fund balance-governmental funds	\$ 10,690,611
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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	\$ 52,510,650	
Accumulated Depreciation	<u>(4,661,974)</u>	
Net		47,848,676

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	1,399,582
NDPERS OPEB	21,036

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	57,335
Uncertified special assessments	425,067

Long-term due from Unity Hospital are not available to pay for current period expenditures and therefore are not recorded in the funds.

1,755,000

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.

181,671

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	(68,466)	
Accrued interest payable	(89,322)	
Bonds payable	(17,335,966)	
Premium on bonds payable	(143,811)	
Discount on bonds payable	127,494	
Net pension liability	(3,139,978)	
Net OPEB liability	<u>(79,562)</u>	
		<u>(20,729,611)</u>

Total net position-governmental activities

\$ 41,649,367

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, 2020**

	<b>General</b>	<b>Special Revenue Grafton Community Development Sales Tax</b>	<b>Capital Projects Flood Control</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>REVENUES</b>					
Taxes	\$ 769,981	\$ 1,105,110	\$ -	\$ 402,792	\$ 2,277,883
Special assessments	8,036	43,751	-	30,430	82,217
Licenses and permits	118,415	-	-	-	118,415
Intergovernmental	1,247,683	447	2,442,384	961,944	4,652,458
Charges for services	12,234	-	-	-	12,234
Fines and forfeits	33,631	-	-	-	33,631
Miscellaneous	110,770	80,810	32,842	238,650	463,072
Total Revenues	<u>2,300,750</u>	<u>1,230,118</u>	<u>2,475,226</u>	<u>1,633,816</u>	<u>7,639,910</u>
<b>EXPENDITURES</b>					
Current:					
General government	587,269	-	-	26,173	613,442
Public safety	1,004,864	-	-	233,154	1,238,018
Highways and streets	479,961	-	-	-	479,961
Health and welfare	3,160	-	-	458,207	461,367
Other	17,577	59,867	739	162,343	240,526
Capital outlay	323,348	-	3,250,751	-	3,574,099
Debt service:					
Principal retirement	-	-	-	618,416	618,416
Interest	-	-	-	583,803	583,803
Total expenditures	<u>2,416,179</u>	<u>59,867</u>	<u>3,251,490</u>	<u>2,082,096</u>	<u>7,809,632</u>
Revenues Over (Under) Expenditures	(115,429)	1,170,251	(776,264)	(448,280)	(169,722)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of capital assets	2,799	-	-	-	2,799
Operating transfers in	760,000	-	-	947,893	1,707,893
Operating transfers out	-	(947,893)	-	-	(947,893)
Total Other Financing Sources (Uses)	<u>762,799</u>	<u>(947,893)</u>	<u>-</u>	<u>947,893</u>	<u>762,799</u>
Net Change in Fund Balance	<u>647,370</u>	<u>222,358</u>	<u>(776,264)</u>	<u>499,613</u>	<u>593,077</u>
Fund Balance - Beginning	<u>2,245,628</u>	<u>2,348,157</u>	<u>4,177,018</u>	<u>1,326,731</u>	<u>10,097,534</u>
Fund Balance - December 31	<u>\$ 2,892,998</u>	<u>\$ 2,570,515</u>	<u>\$ 3,400,754</u>	<u>\$ 1,826,344</u>	<u>\$ 10,690,611</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, 2020**

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

Net change in fund balance- total governmental funds	\$	593,077
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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	3,574,099	
Loss on disposal	(23,550)	
Depreciation expense	(460,637)	
Excess of capital outlay over depreciation expense		3,089,912
Capital Contribution		183,319

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	618,416	
Amortization of bond premium & discounts	1,521	
		619,937

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	2,474
Net change in uncertified special assessments	(95,456)

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.

(27,916)

Changes in deferred outflows and inflows of resources related to net pension and OPEB liabilities	1,491,457
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Change in net pension and OPEB liabilities	(1,992,658)
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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	(10,917)
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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.

7,430

Net change in net position of governmental activities	\$	3,800,659
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See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2020**

	Business-type Activities Enterprise Funds						Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents	\$ 1,401,911	\$ 1,017,845	\$ 198,117	\$ 73,080	\$ 178,297	\$ 2,869,251	\$ 22,880
Restricted cash and cash equivalents	-	77,262	68,036	-	-	145,297	-
Investments	550,945	383,850	-	175,236	125,235	1,235,266	-
Receivables:							
Other	-	17,585	-	-	-	17,585	-
Accounts (net of uncollectibles)	783,238	115,797	54,395	46,197	15,481	1,015,108	-
Interest	1,180	-	-	345	278	1,803	-
Special Assessments - current portion	29,796	895	-	-	-	30,691	-
Prepaid expenses	17,630	8,440	4,127	-	10	30,207	2,727
Inventory	218,004	84,932	6,901	-	-	309,837	69,881
Total current assets	3,002,704	1,706,606	331,576	294,858	319,301	5,655,045	95,488
Capital assets-not being depreciated							
Land	677,145	40,810	195,993	50,524	-	964,472	-
Construction in progress	19,463	6,488	9,110	-	-	35,061	9,500
Capital assets							
Buildings/Improvements	1,448,351	7,744,719	952,449	24,672	-	10,170,191	612,386
Transmission system	7,349,969	10,327,816	6,027,765	-	-	23,705,550	38,979
Machinery and equipment	995,015	191,044	396,044	4,940	36,267	1,623,310	37,512
Total capital assets	10,489,943	18,310,877	7,581,361	80,136	36,267	36,498,584	698,377
Less accumulated depreciation	(7,089,043)	(8,840,730)	(4,861,166)	(18,232)	(36,267)	(20,845,438)	(518,854)
Net capital assets	3,400,900	9,470,147	2,720,195	61,904	-	15,653,146	179,523
<b>TOTAL ASSETS</b>	<b>6,403,604</b>	<b>11,176,753</b>	<b>3,051,771</b>	<b>356,762</b>	<b>319,301</b>	<b>21,308,191</b>	<b>275,011</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Cost sharing defined benefit pension plan-NDPERS	461,306	261,849	153,903	-	-	877,058	84,958
Cost sharing defined benefit OPEB Plan-NDPERS	5,942	3,373	1,982	-	-	11,297	1,094
Total deferred outflows	467,248	265,222	155,885	-	-	888,355	86,052
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable	386,067	18,151	22,174	1,879	190	428,461	6,766
Salaries payable	5,473	3,420	1,794	-	-	10,687	950
Vacations payable	10,158	8,953	4,773	-	-	23,884	3,488
Interest payable	-	12,575	3,285	-	-	15,860	-
Bonds payable-current portion	-	185,000	42,760	-	-	227,760	-
Customer deposits	262,575	-	-	-	-	262,575	-
Total current liabilities	664,273	228,099	74,786	1,879	190	969,227	11,204
Long-term liabilities							
Non-current portion	-	1,637,000	450,000	-	-	2,087,000	-
Net pension liability	778,443	441,864	259,710	-	-	1,480,017	143,365
Net OPEB liability	19,725	11,196	6,581	-	-	37,502	3,633
Total non-current liabilities	798,168	2,090,060	716,291	-	-	3,604,519	146,998
<b>TOTAL LIABILITIES</b>	<b>1,462,441</b>	<b>2,318,159</b>	<b>791,077</b>	<b>1,879</b>	<b>190</b>	<b>4,573,746</b>	<b>158,202</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Cost sharing defined benefit pension plan-NDPERS	114,330	64,896	38,143	-	-	217,369	21,056
Cost sharing defined benefit OPEB Plan-NDPERS	726	412	242	-	-	1,380	134
Total deferred inflows	115,056	65,308	38,385	-	-	218,749	21,190
<b>NET POSITION</b>							
Net investment in capital assets	3,400,900	7,648,147	2,227,435	61,904	-	13,338,386	179,523
Restricted for bond covenants	-	77,262	68,036	-	-	145,297	-
Unrestricted	1,892,455	1,333,099	82,723	292,979	319,111	3,920,368	2,148
<b>TOTAL NET POSITION</b>	<b>\$ 5,293,355</b>	<b>\$ 9,058,508</b>	<b>\$ 2,378,194</b>	<b>\$ 354,883</b>	<b>\$ 319,111</b>	<b>\$ 17,404,051</b>	<b>\$ 181,671</b>

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, 2020**

	Business-type Activities						Governmental
	Enterprise Funds					Internal	
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Service Funds
<b>Operating Revenues:</b>							
Sales - Net of Discounts	\$ 6,524,541	\$ 1,111,583	\$ 493,145	\$ 421,354	\$ 137,596	\$ 8,688,219	\$ 162,379
<b>Operating Expenses:</b>							
Cost of goods sold	4,214,209	-	-	-	-	4,214,209	82,132
Utilities and phone	8,845	98,207	117,250	-	-	224,302	10,006
Materials and supplies	12,766	7,442	4,309	-	-	24,517	1,864
Repairs and maintenance	22,287	10,257	3,495	-	-	36,039	2,935
Gas, fuel and oil	6,116	1,783	3,650	-	16	11,565	514
Insurance	116,994	64,541	50,652	-	36	232,223	26,585
Uniforms	1,682	80	-	-	-	1,762	-
Contracted services	-	4,912	256	361,883	72,264	439,315	-
Technology	-	4,946	-	-	-	4,946	-
Salaries	290,290	177,582	97,659	-	-	565,531	52,433
Payroll taxes	21,421	12,783	7,168	-	-	41,372	3,668
Retirement	160,466	41,257	49,092	-	-	250,815	25,066
Rent	-	-	7,097	-	-	7,097	-
Miscellaneous	32,835	7,440	4,478	598	106	45,457	1,190
Depreciation	228,282	317,428	164,131	3,174	-	713,015	14,853
General equipment	15,787	131	1,488	-	7	17,413	1,333
Operating expenses	298,731	174,123	49,904	29,730	-	552,488	-
Distribution system	57,443	4,444	8,345	-	391	70,623	-
Collection fees	1,757	-	-	2,123	-	3,880	-
Donated and internal use	178,439	5,827	-	-	-	184,266	-
Chemicals	-	92,259	5,362	-	32,340	129,961	-
Travel and training	2,851	104	263	-	-	3,218	-
Structures and improvements	-	5,750	-	-	-	5,750	-
Total Operating Expenses	5,671,201	1,031,296	574,599	397,508	105,160	7,779,764	222,579
Operating Income (Loss)	853,340	80,287	(81,454)	23,846	32,436	908,455	(60,200)
<b>Non-Operating Revenues (Expenses):</b>							
Materials sold	3,811	4,512	-	-	-	8,323	-
Interest earnings	18,691	16,499	2,242	3,827	3,709	44,968	383
Minnkota lease	62,891	-	-	-	-	62,891	-
Rent	1,089	1,000	100	-	-	2,189	5,000
Miscellaneous	5,503	4,438	(1,617)	5,408	266	13,998	-
Grant reimbursement	-	-	30,049	-	-	30,049	-
Cost of materials sold	(1,664)	(4,458)	-	-	-	(6,122)	-
Incentives	(1,000)	-	-	-	-	(1,000)	-
Interest expense	-	(40,375)	(10,369)	-	-	(50,744)	-
Total Non-Operating Revenues (Expense)	89,321	(18,384)	20,405	9,235	3,975	104,552	5,383
Income (Loss) Before Operating							
Transfers and contributions	942,661	61,903	(61,049)	33,081	36,411	1,013,007	(54,817)
Operating Transfers In	-	-	-	-	-	-	62,250
Operating Transfers (Out)	(644,750)	(125,000)	(25,000)	(27,500)	-	(822,250)	-
Net Income (Loss)	297,911	(63,097)	(86,049)	5,581	36,411	190,757	7,433
Net Position, January 1	4,995,444	9,121,605	2,379,741	349,302	282,700	17,128,792	174,238
Prior Period Adjustment - See Note 11	-	-	84,502	-	-	84,502	-
Net Position - Beginning as Restated	4,995,444	9,121,605	2,464,243	349,302	282,700	17,213,294	174,238
Net Position, December 31	\$ 5,293,355	\$ 9,058,508	\$ 2,378,194	\$ 354,883	\$ 319,111	\$ 17,404,051	\$ 181,671

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Business-type Activities Enterprise Funds					Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 6,591,294	\$ 1,125,260	\$ 497,800	\$ 422,334	\$ 137,935	\$ 8,774,623
Cash payments to suppliers	(5,171,835)	(552,910)	(408,723)	(393,986)	(105,158)	(6,632,612)
Cash paid to employees	(158,749)	(152,590)	(58,255)	-	-	(369,594)
Net cash flow from (to) operating activities	1,260,710	419,760	30,822	28,348	32,777	1,772,417
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Miscellaneous revenues (expenses)	70,630	5,492	(1,517)	5,408	268	80,281
Transfers to (from) other funds	(644,750)	(125,000)	(25,000)	(27,500)	-	(822,250)
Net cash flow from (to) non-capital financing activities	(574,120)	(119,508)	(26,517)	(22,092)	268	(741,969)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchases of property and equipment	(217,986)	(35,533)	(104,488)	(401)	-	(358,408)
Proceeds from capital grant	-	-	114,551	-	-	114,551
Principal paid on debt	-	(178,000)	(31,000)	-	-	(209,000)
Interest paid on debt	-	(41,700)	(10,626)	-	-	(52,326)
Net cash flow from (to) capital and related financing activities	(217,986)	(255,233)	(31,563)	(401)	-	(505,183)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest income	28,148	20,019	2,359	6,256	5,051	61,833
(Purchase) Sale of certificates of deposits	149,596	352,140	50,000	50,145	50,145	652,026
Net cash flow from (to) investing activities	177,744	372,159	52,359	56,401	55,196	713,859
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	646,348	417,178	25,101	62,256	88,241	1,239,124
<b>CASH AND CASH EQUIVALENTS, JANUARY 1, 2020</b>	755,563	677,929	241,052	10,824	90,056	1,775,424
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31, 2020</b>	\$ 1,401,911	\$ 1,095,107	\$ 266,153	\$ 73,080	\$ 178,297	\$ 3,014,548
Cash and cash equivalents are comprised of the following:						
Cash and cash equivalents	\$ 1,401,911	\$ 1,017,845	\$ 198,117	\$ 73,080	\$ 178,297	\$ 2,869,251
Restricted cash and cash equivalents	-	77,262	68,036	-	-	145,297
Total cash and cash equivalents on the Statement of Net Position	\$ 1,401,911	\$ 1,095,107	\$ 266,153	\$ 73,080	\$ 178,297	\$ 3,014,548
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating Income (loss)	\$ 853,340	\$ 80,287	\$ (81,454)	\$ 23,846	\$ 32,436	\$ 908,455
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	228,282	317,428	164,131	3,174	-	713,015
Changes in assets and liabilities						
(Increase)/Decrease in Accounts receivable	40,883	13,677	4,655	980	339	60,534
(Increase)/Decrease in Inventory	10,120	(85)	346	-	-	10,381
(Increase)/Decrease in Prepaid expenses	(6,857)	(3,135)	(2,911)	-	2	(12,901)
(Increase)/Decrease in Deferred outflows of resources	(335,485)	(169,736)	(110,081)	-	-	(615,302)
Increase/(Decrease) in Accounts payable	(22,469)	(13,404)	(93,349)	348	-	(128,874)
Increase/(Decrease) in Accrued salaries payable	2,843	1,767	910	-	-	5,520
Increase/(Decrease) in Customer deposits	25,870	-	-	-	-	25,870
Increase/(Decrease) in Deferred inflows of resources	(34,027)	(42,728)	(13,440)	-	-	(90,195)
Increase/(Decrease) in Net pension liability	496,496	237,544	161,695	-	-	895,735
Increase/(Decrease) in Net OPEB liability	1,714	(1,855)	320	-	-	179
Net cash provided (used) by operating activities	\$ 1,260,710	\$ 419,760	\$ 30,822	\$ 28,348	\$ 32,777	\$ 1,772,417

See Notes to the Financial Statements



**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2020**

**Custodial Funds**

	<b><u>Recreation</u></b>	<b><u>Library</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>			
Taxes receivable	\$ 1,521	\$ 2,258	\$ 3,779
Due from other governments	146	221	367
TOTAL ASSETS	<u>\$ 1,667</u>	<u>\$ 2,479</u>	<u>\$ 4,146</u>
<b>LIABILITIES</b>			
Due to other entities	\$ 1,667	\$ 2,479	\$ 4,146
TOTAL LIABILITIES	<u>\$ 1,667</u>	<u>\$ 2,479</u>	<u>\$ 4,146</u>

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Custodial Funds**

	<b><u>Recreation</u></b>	<b><u>Library</u></b>	<b><u>Total</u></b>
<b>ADDITIONS</b>			
Property taxes collected for other entities	\$ 22,911	\$ 33,742	\$ 56,653
<b>DEDUCTIONS</b>			
Property taxes disbursed to other entities	22,911	33,742	56,653
<b>CHANGE IN NET POSITION</b>	-	-	-
<b>NET POSITION - BEGINNING</b>	-	-	-
<b>NET POSITION - ENDING</b>	\$ -	\$ -	\$ -

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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, 2020**

***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.

The City reports the following major governmental funds:

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

Grafton Community Development Sales Tax Fund - This fund accounts for the collection of city sales tax and distribution for community development.

Flood Control Fund - This fund accounts for the construction cost of diversion and levee to protect the City of Grafton from flooding.

The City reports the following major enterprise funds -

Electric Fund - This fund accounts for the electric plant production and the electric distribution system.

Water Fund - This fund accounts for the activity of the Water Department. The department operates the water treatment plant and water distribution system for the City of Grafton.

Wastewater Fund - This fund accounts for the collection and treatment of the wastewater for the City.

Sanitation Fund - This fund accounts for the collection and disposal of garbage for the City.

Pest Control Fund - This Fund accounts for the prevention and extermination of insects, rodents and weeds.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

***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.

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***

Custodial Funds

The City includes two custodial funds and does not involve the measurement of results of operations. The custodial funds are as follows:

Parks and Recreation – Property taxes are levied by the City on behalf of Parks and Recreation and submitted to the Parks and Recreation Board.

Library – Property taxes are levied by the City on behalf of the Library and submitted to the Library Board.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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.

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.

**Accounts Receivable**

Accounts receivable consists of amounts open from individuals for goods and services furnished by the City. The carrying amount of accounts receivable is reduced by an amount that reflects management’s best estimates of amounts that will not be collected. The City had allowances for uncollectible accounts totaling \$7,602 for business-type activities recorded at December 31, 2020.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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 1<sup>st</sup> of the year collectible. A 5% reduction is allowed if paid by February 15<sup>th</sup>. Penalty and interest are added March 1<sup>st</sup> unless the first half of the taxes have been paid. Additional penalties are added October 15<sup>th</sup> 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.

**Special Assessments Receivable**

Special Assessments receivable consists of uncollected special assessments due to the City at December 31, 2020 and uncertified special assessments, which represent a long-term receivable in the financial statements. No allowance has been established for uncollectible special assessments. As of December 31, 2020, all accounts are considered collectible.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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.

**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.



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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.

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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

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.

**Significant Group Concentrations of Credit Risk**

As of December 31, 2020, 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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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 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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

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, 2020, 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.

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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**NOTE 3 - CAPITAL ASSETS**

Changes in capital assets for governmental activities for the year ended December 31, 2020 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities Capital Assets:</b>				
Land	\$ 2,284,361	\$ -	\$ -	\$ 2,284,361
Buildings and improvements	1,362,805	120,867	-	1,483,672
Vehicles and equipment	3,274,155	355,683	63,623	3,566,215
Infrastructure	9,006,035	107,079	-	9,113,114
Construction in progress	33,510,914	3,250,751	-	36,761,665
<b>Total</b>	<b>49,438,270</b>	<b>3,834,380</b>	<b>63,623</b>	<b>53,209,027</b>
<b>Governmental Activities Accumulated Depreciation:</b>				
Buildings and improvements	924,509	66,119	-	990,628
Vehicles and equipment	2,123,746	206,595	40,073	2,290,268
Infrastructure	1,697,155	202,776	-	1,899,931
<b>Total</b>	<b>4,745,410</b>	<b>475,490</b>	<b>40,073</b>	<b>5,180,827</b>
<b>Net Capital Assets - Governmental Activities</b>	<b>\$ 44,692,860</b>	<b>\$ 3,358,890</b>	<b>\$ 23,550</b>	<b>\$ 48,028,200</b>

Changes in capital assets for business-type activities for the year ended December 31, 2020 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Business-Type Activities Capital Assets:</b>				
Land	\$ 964,472	\$ -	\$ -	\$ 964,472
Buildings and improvements	10,143,766	26,427	-	10,170,193
Transmission system	23,289,474	416,074	-	23,705,548
Vehicles and equipment	1,589,124	34,186	-	1,623,310
Construction in progress	153,344	129,395	247,678	35,061
<b>Total</b>	<b>36,140,180</b>	<b>606,082</b>	<b>247,678</b>	<b>36,498,584</b>
<b>Business-Type Activities Accumulated Depreciation:</b>				
Buildings and improvements	2,513,657	191,747	-	2,705,404
Transmission system	16,586,084	423,530	-	17,009,614
Vehicles and equipment	1,032,685	97,735	-	1,130,420
<b>Total</b>	<b>20,132,426</b>	<b>713,012</b>	<b>-</b>	<b>20,845,438</b>
<b>Net Capital Assets Business-Type Activities</b>	<b>\$ 16,007,754</b>	<b>\$ (106,930)</b>	<b>\$ 247,678</b>	<b>\$ 15,653,146</b>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

Changes in capital assets for component unit for the year ended December 31, 2020 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	<u>5,850</u>	<u>9,500</u>	<u>5,850</u>	<u>9,500</u>
Total	<u>2,913,685</u>	<u>9,500</u>	<u>5,850</u>	<u>2,917,335</u>
Component Unit Accumulated Depreciation:				
Buildings and improvements	704,565	117,746	-	822,311
Vehicles and equipment	<u>5,850</u>	<u>-</u>	<u>5,850</u>	<u>-</u>
Total	<u>710,415</u>	<u>117,746</u>	<u>5,850</u>	<u>822,311</u>
Net Capital Assets - Component Unit	<u>\$ 2,203,270</u>	<u>\$ (108,246)</u>	<u>\$ -</u>	<u>\$ 2,095,024</u>

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

Governmental Activities	
General Government	\$ 27,575
Public Safety	149,557
Highways and Streets	257,933
Health and Recreation	<u>40,425</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 475,490</u>
Business-Type Activities	
Electric	\$ 228,279
Water	317,428
Wastewater	164,131
Sanitation	<u>3,174</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 713,012</u>
Total Depreciation Expense - Component Unit	<u>\$ 117,746</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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, 2020:

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%	\$ 2,910,000	\$ -	\$ (160,000)	\$ -	\$ 2,750,000	\$ 165,000	\$ 6,358
Bond Premium		32,320	-	-	(2,020)	30,300	-	-
\$10,000,000 of 2018	3.50% - 4.0%	9,775,000	-	(200,000)	-	9,575,000	205,000	58,814
Bond Premium		117,565	-	-	(4,054)	113,511	-	-
Bond Discount		(132,047)	-	-	4,553	(127,494)	-	-
General Obligation Bonds 2012	.4%-1.4%	290,000	-	(95,000)	-	195,000	95,000	455
Sales Tax Revenue Bonds								
\$2,350,000 2008A*	3.5% - 5.5%	1,815,000	-	(60,000)	-	1,755,000	65,000	15,617
Definitive Improvement 2017	1.50%	3,164,382	-	(103,416)	-	3,060,966	103,012	8,078
Compensated Absences		57,549	-	-	10,917	68,466	-	-
Other Debt:								
Net Pension Liability		1,209,130	-	-	2,074,213	3,283,343	-	-
Net OPEB Liability		77,239	-	-	5,956	83,195	-	-
		<u>\$ 19,316,138</u>	<u>\$ -</u>	<u>\$ (618,416)</u>	<u>\$ 2,089,565</u>	<u>\$ 20,787,287</u>	<u>\$ 633,012</u>	<u>\$ 89,322</u>

\*During 2021, the Series 2008A Sales Tax Revenue Bonds were called and repaid in full.

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

Governmental Activities

	\$2,350,000 Sales Tax Revenue Bonds			\$890,000 General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	75,000	78,325	153,325	-	-	-
2026-2030	440,000	327,565	767,565	-	-	-
2031-2035	560,000	193,325	753,325	-	-	-
2036-2040	410,000	34,650	444,650	-	-	-
	<u>\$ 1,755,000</u>	<u>\$ 984,175</u>	<u>\$ 2,739,175</u>	<u>\$ 195,000</u>	<u>\$ 2,065</u>	<u>\$ 197,065</u>



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

	<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>
2021	\$ 165,000	\$ 76,295	\$ 241,295	\$ 103,012	\$ 45,286	\$ 148,298
2022	170,000	72,995	242,995	103,783	43,735	147,518
2023	175,000	69,595	244,595	104,562	42,172	146,734
2024	175,000	66,095	241,095	105,346	40,598	145,944
2025	180,000	62,420	242,420	106,136	39,012	145,148
2026-2030	980,000	228,100	1,208,100	542,740	170,847	713,587
2031-2035	905,000	70,800	975,800	563,400	129,371	692,771
2036-2040	-	-	-	584,847	86,317	671,164
2041-2045	-	-	-	606,809	41,624	648,433
2046-2047	-	-	-	240,331	3,409	243,740
	<u>\$ 2,750,000</u>	<u>\$ 646,300</u>	<u>\$ 3,396,300</u>	<u>\$ 3,060,966</u>	<u>\$ 642,371</u>	<u>\$ 3,703,337</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>
2021	\$ 205,000	\$ 352,881	\$ 557,881	\$ 633,012	\$ 216,031	\$ 849,043
2022	215,000	345,706	560,706	653,783	552,961	1,206,744
2023	220,000	338,181	558,181	569,562	535,398	1,104,960
2024	230,000	330,481	560,481	580,346	519,124	1,099,470
2025	235,000	322,431	557,431	596,136	502,188	1,098,324
2026-2030	1,310,000	1,482,305	2,792,305	3,272,740	2,208,817	5,481,557
2031-2035	1,555,000	1,236,780	2,791,780	3,583,400	1,630,276	5,213,676
2036-2040	1,845,000	944,880	2,789,880	2,839,847	1,065,847	3,905,694
2041-2045	2,215,000	580,263	2,795,263	2,821,809	621,887	3,443,696
2046-2048	1,545,000	125,200	1,670,200	1,785,331	128,609	1,913,940
	<u>\$ 9,575,000</u>	<u>\$ 6,059,108</u>	<u>\$ 15,634,108</u>	<u>\$ 17,335,966</u>	<u>\$ 7,981,138</u>	<u>\$ 25,317,104</u>

The following is a summary of changes in business-type activities long-term debt by individual issue for the year ended December 31, 2020:

<u>BUSINESS-TYPE ACTIVITIES</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>New Issues</u>	<u>Retired</u>	<u>Other</u>	<u>Ending Balance</u>	<u>Due within One Year</u>	<u>Accrued Interest</u>
<u>Water</u>								
ND Public Finance Water Revenue Bonds	2.50%	\$ 55,000	\$ -	\$ (15,000)	\$ -	\$ 40,000	\$ 20,000	\$ 334
ND Public Finance	2.50%	285,000	-	(68,000)	-	217,000	70,000	1,808
ND Public Finance	2.00%	1,660,000	-	(95,000)	-	1,565,000	95,000	10,433
Net Pension Liability		204,320	-	-	237,544	441,864	-	-
Net OPEB Liability		13,052	-	-	(1,856)	11,196	-	-
		<u>\$ 2,217,372</u>	<u>\$ -</u>	<u>\$ (178,000)</u>	<u>\$ 235,688</u>	<u>\$ 2,275,060</u>	<u>\$ 185,000</u>	<u>\$ 12,575</u>
<u>Wastewater</u>								
ND Public Finance-Clean Water Loan	2.00%	\$ 493,760	\$ -	\$ (1,000)	\$ -	\$ 492,760	\$ 42,760	\$ 3,285
ND Public Finance-Sewer Revenue Bonds	2.50%	30,000	-	(30,000)	-	-	-	-
Net Pension Liability		98,014	-	-	161,696	259,710	-	-
Net OPEB Liability		6,261	-	-	320	6,581	-	-
		<u>\$ 628,035</u>	<u>\$ -</u>	<u>\$ (31,000)</u>	<u>\$ 162,016</u>	<u>\$ 759,051</u>	<u>\$ 42,760</u>	<u>\$ 3,285</u>
<u>Electric</u>								
Net Pension Liability		\$ 281,947	\$ -	\$ -	\$ 496,500	\$ 778,447	\$ -	\$ -
Net OPEB Liability		18,010	-	-	1,715	19,725	-	-
		<u>\$ 299,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 498,215</u>	<u>\$ 798,172</u>	<u>\$ -</u>	<u>\$ -</u>



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

Water operating income of \$397,715, net of depreciation, was sufficient to cover debt service requirements of \$219,700 for the year ending December 31, 2020.

Wastewater operating income of \$82,677, net of depreciation, was sufficient to cover debt service requirements of \$41,626 for the year ending December 31, 2020.

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
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	-	-	-	105,000	23,500	128,500
2026-2030	-	-	-	565,000	85,100	650,100
2031-2035	-	-	-	505,000	25,600	530,600
	<u>\$ 40,000</u>	<u>\$ 1,500</u>	<u>\$ 41,500</u>	<u>\$ 1,565,000</u>	<u>\$ 247,900</u>	<u>\$ 1,812,900</u>

	North Dakota Public Finance			Combined Debt Payments Business-Type Activities-Water		
	Principal	Interest	Total	Principal	Interest	Total
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	-	-	-	105,000	23,500	128,500
2026-2030	-	-	-	565,000	85,100	650,100
2031-2035	-	-	-	505,000	25,600	530,600
	<u>\$ 217,000</u>	<u>\$ 10,975</u>	<u>\$ 227,975</u>	<u>\$ 1,822,000</u>	<u>\$ 260,375</u>	<u>\$ 2,082,375</u>

	North Dakota Public Finance			Combined Debt Payments Business-Type Activities-Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 42,760	\$ 9,875	\$ 52,635	\$ 42,760	\$ 9,875	\$ 52,635
2022	45,000	9,855	54,855	45,000	9,855	54,855
2023	50,000	9,000	59,000	50,000	9,000	59,000
2024	50,000	7,100	57,100	50,000	7,100	57,100
2025	50,000	6,100	56,100	50,000	6,100	56,100
2026-2030	255,000	15,500	270,500	255,000	15,500	270,500
	<u>\$ 492,760</u>	<u>\$ 57,430</u>	<u>\$ 550,190</u>	<u>\$ 492,760</u>	<u>\$ 57,430</u>	<u>\$ 550,190</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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 90 (Rule of 90), or at normal retirement age (60). The annual pension benefit is equal to 1.75% 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**  
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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, 2020, the City reported a liability of \$4,763,360 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the City's proportion was 0.151409 percent which was a decrease of 0.001603 percent from its proportion measured at June 30, 2019.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

For the year ended December 31, 2020, the City recognized pension expense of \$840,637. At December 31, 2020, 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	\$ 18,537	\$ 241,364
Changes in actuarial assumptions	2,553,461	422,150
Difference between projected and actual investment earnings	153,737	-
Changes in proportion	30,926	36,081
Contributions paid to NDPERS subsequent to the measurement date	66,107	-
Total	<u>\$ 2,822,768</u>	<u>\$ 699,595</u>

\$66,107 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, 2021.

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>
2021	\$ 617,554
2022	531,148
2023	427,115
2024	481,249
2025	-

### **Actuarial Assumptions**

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75%, including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	30.00%	6.30%
International Equity	21.00%	6.85%
Private Equity	7.00%	9.75%
Domestic Fixed Income	23.00%	1.25%
Global Real Assets	19.00%	5.01%

**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 the purpose of this valuation, the expected rate of return on the pension plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount rate is 4.64%

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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 4.64 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 (3.64 percent) or 1 percentage point higher (5.64 percent) than the current rate:

	1% Decrease in Discount Rate 3.64%	Discount Rate 4.64%	1% Increase in Discount Rate 5.64%
City's proportionate share of the NDPERS net pension liability:	\$ 6,180,101	\$ 4,763,360	\$ 3,604,120

**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 any 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, 2020**

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, 2020, the City reported a liability of \$120,697 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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, 2020, the Employer's proportion was 0.143482 percent, which is an increase of 0.000849 from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the City recognized OPEB expense of \$17,963. At December 31, 2020, 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	\$ 2,680	\$ 2,894
Changes in actuarial assumptions	16,183	-
Difference between projected and actual investment earnings	4,151	-
Changes in proportion	2,758	1,550
Contributions paid to NDPERS subsequent to the measurement date	10,585	-
Total	<u>\$ 36,357</u>	<u>\$ 4,444</u>



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

\$10,585 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, 2021.

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

Year Ending June 30:	OPEB Expense Amount
2021	\$ 4,511
2022	5,583
2023	5,387
2024	4,170
2025	1,582
2026	95

**Actuarial assumptions.** The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 110% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33.00%	6.10%
Small Cap Domestic Equities	6.00%	7.00%
Domestic Fixed Income	40.00%	1.15%
International Equities	21.00%	6.45%



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**Discount rate.** The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 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 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, 2020, calculated using the discount rate of 6.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease in Discount Rate 5.50%	Discount Rate 6.50%	1% Increase in Discount Rate 7.50%
City's proportionate share of the NDPERS net OPEB liability:	\$ 158,296	\$ 120,697	\$ 88,901

## **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, 2020, 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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**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.

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, 2020 was \$36,795,274 for the flood control project.

**NOTE 8 - SCHEDULE OF TRANSFERS**

Transfers to General Fund from	
Electric Fund	\$ 582,500
Water Fund	125,000
Wastewater Fund	25,000
Sanitation Fund	27,500
	<u>\$ 760,000</u>
 Transfers to Internal Service Fund from	
Electric Fund	<u>\$ 62,250</u>
 Transfers from Sales Tax Fund to	
2015 Refunding Bond - Sales Tax	\$ 239,996
2018 Refunding Bond Series 2018A	556,881
2017 Definitive Warrant	151,016
	<u>\$ 947,893</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. As of December 31, 2020 the principal remaining on these bonds was \$1,755,000, which is recorded as a note receivable from Unity Hospital on the statement of net position. During 2021 this note was repaid in full and the proceeds were used to pay off the bonds.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**NOTE 10 - FUND BALANCES**

Fund balance is categorized as follows:

	General	Grafton Community Development Sales Tax	Flood Control	Other Governmental Funds	Total
<b>Fund Balances</b>					
<b>Nonspendable</b>					
Prepays	\$ 38,100	\$ -	\$ -	\$ -	\$ 38,100
Total nonspendable	<u>38,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,100</u>
<b>Restricted</b>					
Debt service	-	-	-	475,338	475,338
Flood control	-	-	3,400,754	-	3,400,754
Economic development	-	2,570,515	-	-	2,570,515
Community development	-	-	-	5,951	5,951
Cemetery	-	-	-	80,536	80,536
Lodging	-	-	-	48,818	48,818
Annual special assessment	-	-	-	8,519	8,519
Infrastructure	-	-	-	500,000	500,000
Volunteer Fire Dept	-	-	-	700,196	700,196
Culture and recreation	-	-	-	168	168
Building improvements	-	-	-	-	-
Total restricted	<u>-</u>	<u>2,570,515</u>	<u>3,400,754</u>	<u>1,819,526</u>	<u>7,790,795</u>
<b>Committed</b>					
Street resurfacing	-	-	-	30,261	30,261
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,261</u>	<u>30,261</u>
<b>Assigned</b>					
Social Security	72,477	-	-	-	72,477
Advertising	16,508	-	-	-	16,508
Planning and zoning	92,783	-	-	-	92,783
Armory	57,583	-	-	-	57,583
Building improvements	266,185	-	-	-	266,185
Streets	545,561	-	-	-	545,561
Public safety	328,656	-	-	-	328,656
General government	70,120	-	-	-	70,120
Total assigned	<u>1,449,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,449,873</u>
<b>Unassigned</b>	<u>1,405,025</u>	<u>-</u>	<u>-</u>	<u>(23,443)</u>	<u>1,381,582</u>
<b>Total Fund Balance</b>	<u>\$ 2,892,998</u>	<u>\$ 2,570,515</u>	<u>\$ 3,400,754</u>	<u>\$ 1,826,344</u>	<u>\$ 10,690,611</u>

As of December 31, 2020, the Annual Special Assessment Fund had a fund deficit of \$23,443 which will be replenished through property taxes and/or general funds.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**NOTE 11 - PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment was made for unrecorded grant revenue in the prior year relating to the flood control construction project. As a result, beginning net position has been restated as follows:

	Wastewater Fund
January 1, 2020 as previously reported	\$ 2,379,741
Increase in grants receivable	<u>84,502</u>
Prior Period Adjustment	<u>84,502</u>
January 1, 2020, as restated	<u>\$ 2,464,243</u>

**NOTE 12 - NEW PRONOUNCEMENTS**

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.

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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

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.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

**NOTE 13 - SUBSEQUENT EVENTS**

Other than the subsequent bond and note receivable repayments discussed in notes four and nine, there were no significant events that occurred subsequent to the City's year end. Subsequent events have been evaluated through July 29, 2021, 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, 2020**

	<u>Budget Amounts</u>			<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 789,780	\$ 789,780	\$ 769,981	\$ (19,799)
Special assessments	-	-	8,036	8,036
Licenses and permits	125,350	125,350	118,415	(6,935)
Intergovernmental	602,455	1,153,930	1,247,683	93,753
Charges for services	4,000	4,000	12,234	8,234
Fines and forfeits	39,000	39,000	33,631	(5,369)
Miscellaneous	59,670	59,670	110,770	51,100
TOTAL REVENUES	<u>1,620,255</u>	<u>2,171,730</u>	<u>2,300,750</u>	<u>129,020</u>
<b>EXPENDITURES</b>				
General government	567,065	572,057	587,269	(15,212)
Public safety	1,097,990	1,359,756	1,004,864	354,892
Highways and streets	695,775	734,394	479,961	254,433
Health and welfare	4,555	4,555	3,160	1,395
Other	42,850	42,850	17,577	25,273
Capital outlay	106,000	178,735	323,348	(144,613)
Debt service-principal	-	-	-	-
TOTAL EXPENDITURES	<u>2,514,235</u>	<u>2,892,347</u>	<u>2,416,179</u>	<u>476,168</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(893,980)	(720,617)	(115,429)	605,188
<b>OTHER SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	-	2,799	2,799
Transfer from other funds	760,000	760,000	760,000	-
Transfer to other funds	-	-	-	-
TOTAL OTHER SOURCES (USES)	<u>760,000</u>	<u>760,000</u>	<u>762,799</u>	<u>2,799</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (133,980)</u>	<u>\$ 39,383</u>	<u>647,370</u>	<u>\$ 607,987</u>
FUND BALANCE - JANUARY 1			<u>2,245,628</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 2,892,998</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, 2020**

	<u>Budget Amounts</u>			<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 850,000	\$ 850,000	\$ 1,105,110	\$ 255,110
Special assessments	46,740	46,740	43,751	(2,989)
Intergovernmental	350	350	447	97
Loan repayments	15,220	15,220	-	(15,220)
Miscellaneous	87,270	87,270	80,810	(6,460)
	<u>999,580</u>	<u>999,580</u>	<u>1,230,118</u>	<u>230,538</u>
<b>TOTAL REVENUES</b>				
	<u>999,580</u>	<u>999,580</u>	<u>1,230,118</u>	<u>230,538</u>
<b>EXPENDITURES</b>				
Other	1,145,180	1,145,180	59,867	1,085,313
<b>TOTAL EXPENDITURES</b>	<u>1,145,180</u>	<u>1,145,180</u>	<u>59,867</u>	<u>1,085,313</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(145,600)	(145,600)	1,170,251	1,315,851
<b>OTHER SOURCES (USES)</b>				
Transfer to other funds	<u>(951,380)</u>	<u>(1,101,380)</u>	<u>(947,893)</u>	<u>153,487</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>\$ (1,096,980)</u>	<u>\$ (1,246,980)</u>	<u>222,358</u>	<u>\$ 1,469,338</u>
<b>FUND BALANCE - JANUARY 1</b>			<u>2,348,157</u>	
<b>FUND BALANCE - DECEMBER 31</b>			<u>\$ 2,570,515</u>	

See Note to the Budgetary Comparison Schedules



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULES**  
**DECEMBER 31, 2020**

**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
2020	0.151410%	\$ 4,763,360	\$ 1,670,227	285.19%	48.91%
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 Notes 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
2020	\$ 127,404	\$ 127,404	\$ -	\$ 1,789,387	7.12%
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 Notes to the Required Supplementary Information

**CITY OF GRAFTON, NORTH DAKOTA**  
**SCHEDULE OF SHARE OF THE OPEB LIABILITY**  
**DECEMBER 31, 2020**

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
2020	0.143482%	\$ 120,697	\$ 1,635,656	7.38%	63.38%
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 Notes to the Required Supplementary Information

**CITY OF GRAFTON, NORTH DAKOTA**  
**SCHEDULE OF CONTRIBUTIONS TO OPEB PLAN**  
**DECEMBER 31, 2020**

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
2020	\$ 20,399	\$ 20,399	\$ -	\$ 1,789,387	1.14%
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 Notes to the Required Supplementary Information

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2020**

**NOTE 1 NDPERS PLAN**

**Changes of Benefit Terms:**

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75% (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

**Changes of Assumptions:**

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5% to 2.25% for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation

**NOTE 2 NDPERS OPEB PLAN**

**Changes of Benefit Terms:**

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in the RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

**Changes of Assumptions:**

The Board approved the following changes to the actuarial assumptions beginning with The July 1, 2020 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2020**

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Non major Governmental Funds</u>
<b>Assets</b>				
Cash	\$ 969,562	\$ 120,082	\$ 30,261	\$ 1,119,905
Investments	377,960	512,312	-	890,272
Taxes receivable	2,694	3,769	-	6,463
Special assessments receivable	-	57,307	-	57,307
Interest receivable	-	5,118	-	5,118
Due from other governments	251	369	-	620
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 1,350,467</u>	<u>\$ 698,957</u>	<u>\$ 30,261</u>	<u>\$ 2,079,685</u>
<b>Liabilities</b>				
Accounts payable	\$ 27,028	\$ 162,543	\$ -	\$ 189,571
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>27,028</u>	<u>162,543</u>	<u>-</u>	<u>189,571</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue- property taxes	2,694	3,769	-	6,463
Uncertified special assessments	-	57,307	-	57,307
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>2,694</u>	<u>61,076</u>	<u>-</u>	<u>63,770</u>
<b>Fund Balance</b>				
Restricted	1,344,188	475,338	-	1,819,526
Unrestricted				
Committed	-	-	30,261	30,261
Unassigned	(23,443)	-	-	(23,443)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>1,320,745</u>	<u>475,338</u>	<u>30,261</u>	<u>1,826,344</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,350,467</u>	<u>\$ 698,957</u>	<u>\$ 30,261</u>	<u>\$ 2,079,685</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, 2020**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total Non major Governmental Funds</b>
<b>Revenues</b>				
Taxes	\$ 72,579	\$ 330,213	\$ -	\$ 402,792
Special assessments	-	30,430	-	30,430
Intergovernmental	960,004	1,940	-	961,944
Other	227,151	11,499	-	238,650
Total revenues	<u>1,259,734</u>	<u>374,082</u>	<u>-</u>	<u>1,633,816</u>
<b>Expenditures</b>				
Current				
General government	26,173	-	-	26,173
Public safety	233,154	-	-	233,154
Other	45,677	116,666	-	162,343
Health & Welfare	458,207	-	-	458,207
Debt Service:				
Principal	-	618,416	-	618,416
Interest	-	583,803	-	583,803
Total expenditures	<u>763,211</u>	<u>1,318,885</u>	<u>-</u>	<u>2,082,096</u>
Excess Revenues Over (Under) Expenditures	496,523	(944,803)	-	(448,280)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	<u>-</u>	<u>947,893</u>	<u>-</u>	<u>947,893</u>
Excess Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	<u>496,523</u>	<u>3,090</u>	<u>-</u>	<u>499,613</u>
Fund Balance - January 1	<u>824,222</u>	<u>472,248</u>	<u>30,261</u>	<u>1,326,731</u>
Fund Balance - December 31	<u>\$ 1,320,745</u>	<u>\$ 475,338</u>	<u>\$ 30,261</u>	<u>\$ 1,826,344</u>



**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2020**

	<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>Municipal Infrastructure</u>	<u>Volunteer Fire</u>	<u>Total</u>
<b>Assets</b>									
Cash	\$ 8,519	\$ 55,312	\$ 48,818	\$ 3,424	\$ 168	\$ 5,951	\$ 500,000	\$ 347,370	\$ 969,562
Investments	-	25,134	-	-	-	-	-	352,826	377,960
Taxes receivable	-	925	-	1,769	-	-	-	-	2,694
Due from other governments	-	90	-	161	-	-	-	-	251
<b>Total Assets</b>	<u>\$ 8,519</u>	<u>\$ 81,461</u>	<u>\$ 48,818</u>	<u>\$ 5,354</u>	<u>\$ 168</u>	<u>\$ 5,951</u>	<u>\$ 500,000</u>	<u>\$ 700,196</u>	<u>\$ 1,350,467</u>
<b>Liabilities</b>									
Accounts payable	\$ -	\$ -	\$ -	\$ 27,028	\$ -	\$ -	\$ -	\$ -	\$ 27,028
<b>Deferred Inflows of Resources</b>									
Unavailable revenue- property taxes	-	925	-	1,769	-	-	-	-	2,694
<b>Fund Balance</b>									
Restricted	8,519	80,536	48,818	-	168	5,951	500,000	700,196	1,344,188
Unassigned	-	-	-	(23,443)	-	-	-	-	(23,443)
Total fund balance	<u>8,519</u>	<u>80,536</u>	<u>48,818</u>	<u>(23,443)</u>	<u>168</u>	<u>5,951</u>	<u>500,000</u>	<u>700,196</u>	<u>1,320,745</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ 8,519</u>	<u>\$ 81,461</u>	<u>\$ 48,818</u>	<u>\$ 5,354</u>	<u>\$ 168</u>	<u>\$ 5,951</u>	<u>\$ 500,000</u>	<u>\$ 700,196</u>	<u>\$ 1,350,467</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, 2020**

	<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>Municipal Infrastructure</u>	<u>Volunteer Fire</u>	<u>Unity Medical Generator</u>	<u>Total</u>
<b>Revenues</b>										
Taxes	\$ -	\$ 13,244	\$ 24,148	\$ 35,187	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,579
Intergovernmental	-	476	-	1,321	-	-	500,000	-	458,207	960,004
Other	59	2,462	280	118	-	33	-	224,199	-	227,151
Total revenues	59	16,182	24,428	36,626	-	33	500,000	224,199	458,207	1,259,734
<b>Expenditures</b>										
Current										
General government	-	8,173	18,000	-	-	-	-	-	-	26,173
Public safety	-	-	-	-	-	401	-	232,753	-	233,154
Health & welfare	-	-	-	-	-	-	-	-	458,207	458,207
Other	-	-	-	45,677	-	-	-	-	-	45,677
Total expenditures	-	8,173	18,000	45,677	-	401	-	232,753	458,207	763,211
Excess Revenues Over (Under)										
Expenditures	59	8,009	6,428	(9,051)	-	(368)	500,000	(8,554)	-	496,523
Fund Balance - January 1 as restated	8,460	72,527	42,390	(14,392)	168	6,319	-	708,750	-	824,222
Fund Balance - December 31	\$ 8,519	\$ 80,536	\$ 48,818	\$ (23,443)	\$ 168	\$ 5,951	\$ 500,000	\$ 700,196	\$ -	\$ 1,320,745

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR DEBT SERVICE FUNDS**  
**DECEMBER 31, 2020**

	<b>2017</b>	<b>2008-A</b>	<b>2012</b>	<b>2015</b>	<b>2018</b>	
	<b>Definitive Warrant</b>	<b>Sales Tax</b>	<b>General</b>	<b>Refunding Bond</b>	<b>Refunding Bond</b>	
		<b>Revenue Bonds</b>	<b>Obligation</b>	<b>Sales Tax</b>	<b>Series 2018A</b>	<b>Total</b>
<b>Assets</b>						
Cash	\$ -	\$ 119,722	\$ 360	\$ -	\$ -	\$ 120,082
Investments	-	212,312	300,000	-	-	512,312
Taxes receivable	-	-	3,769	-	-	3,769
Special assessments receivable	-	-	57,307	-	-	57,307
Interest receivable	-	-	5,118	-	-	5,118
Due from other governments	-	-	369	-	-	369
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 332,034</u>	<u>\$ 366,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 698,957</u>
<b>Liabilities</b>						
Accounts payable	\$ -	\$ 162,043	\$ 500	\$ -	\$ -	\$ 162,543
<b>Deferred Inflows of Resources</b>						
Unavailable revenue-property taxes			3,769	-	-	3,769
Uncertified special assessments	-	-	57,307	-	-	57,307
Total Deferred Inflows of Resources	-	-	61,076	-	-	61,076
<b>Fund Balance</b>						
Restricted	-	169,991	305,347	-	-	475,338
Total fund balance	-	169,991	305,347	-	-	475,338
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ -</u>	<u>\$ 332,034</u>	<u>\$ 366,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 698,957</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, 2020**

	2017	2008-A	2012	2015	2018	
	Definitive Warrant	Sales Tax Revenue Bonds	General Obligation	Refunding Bond Sales Tax	Refunding Bond Series 2018A	Total
<b>Revenues:</b>						
Real estate taxes	\$ -	\$ -	\$ 53,935	\$ -	\$ -	\$ 53,935
Sales taxes	-	276,278	-	-	-	276,278
Special assessments	-	-	30,430	-	-	30,430
Intergovernmental	-	-	1,940	-	-	1,940
Other	-	5,182	6,317	-	-	11,499
Total revenues	-	281,460	92,622	-	-	374,082
<b>Expenditures:</b>						
Other	-	116,666				116,666
Debt Service:						
Principal	103,416	60,000	95,000	160,000	200,000	618,416
Interest	47,601	95,550	3,776	79,995	356,881	583,803
Total expenditures	151,017	272,216	98,776	239,995	556,881	1,318,885
Excess of Revenues Over (Under) Expenditures Before Other Financing Sources	(151,017)	9,244	(6,154)	(239,995)	(556,881)	(944,803)
<b>Other Financing Sources (Uses)</b>						
Operating transfer in	151,017	-	-	239,995	556,881	947,893
Excess of Revenues over (under) Expenditures	-	9,244	(6,154)	-	-	3,090
Fund Balance - January 1	-	160,747	311,501	-	-	472,248
Fund Balance (Deficit), December 31	\$ -	\$ 169,991	\$ 305,347	\$ -	\$ -	\$ 475,338

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**DECEMBER 31, 2020**

	<u><b>Urban Roads</b></u>
<b>Assets:</b>	
Cash	\$ 30,261
<b>TOTAL ASSETS</b>	<u><u>\$ 30,261</u></u>
 <b>Liabilities:</b>	
Total liabilities	<u>\$ -</u>
 <b>Fund Balance:</b>	
Committed	<u>30,261</u>
Total fund balance	<u>30,261</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <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, 2020**

	<u><b>Urban Roads</b></u>
<b>Revenues:</b>	
Total revenues	\$ -
<b>Expenditures</b>	
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, 2020**

	<u><b>Airport Authority</b></u>	<u><b>GASB 34 Adjustments</b></u>	<u><b>Total per Statement of Net Position</b></u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 90,152	\$ -	\$ 90,152
Investments	75,000	-	75,000
Receivables:			
Grants	53,298	-	53,298
Taxes	1,847	-	1,847
Interest	365	-	365
Due from other governments	181	-	181
Prepaid insurance	838	-	838
Capital Assets, Net	-	2,095,024	2,095,024
<b>TOTAL ASSETS</b>	<u>\$ 221,681</u>	<u>\$ 2,095,024</u>	<u>\$ 2,316,705</u>
 <b>LIABILITIES</b>			
Liabilities			
Accounts payable	\$ 3,829	\$ -	\$ 3,829
Total liabilities	<u>3,829</u>	<u>-</u>	<u>3,829</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property taxes	<u>1,847</u>	<u>(1,847)</u>	<u>-</u>
 <b>FUND BALANCE/NET POSITION</b>			
Nonspendable	-		-
Net investment in capital assets	-	2,095,024	2,095,024
Restricted	216,005	1,847	217,852
Total fund balance/net position	<u>216,005</u>	<u>2,096,871</u>	<u>2,312,876</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE/NET POSITION</b>	<u>\$ 221,681</u>	<u>\$ 2,095,024</u>	<u>\$ 2,316,705</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**COMPONENT UNITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u><b>Airport Authority</b></u>	<u><b>GASB 34 Adjustments</b></u>	<u><b>Total per Statement of Activities</b></u>
<b>Revenues</b>			
Taxes	\$ 26,417	\$ (115)	\$ 26,302
Intergovernmental	276,585	-	276,585
Other	40,553	-	40,553
Total revenues	<u>343,555</u>	<u>(115)</u>	<u>343,440</u>
<b>Expenditures</b>			
Current			
Public safety	-	-	-
Other	34,300	-	34,300
Depreciation	-	117,746	117,746
Capital outlay	272,299	(9,500)	262,799
Total expenditures	<u>306,599</u>	<u>108,246</u>	<u>414,845</u>
Excess Revenues Over (Under)			
Expenditures	36,956	(108,361)	(71,405)
Other Financing Sources			
Sale of general fixed assets	2,499	-	2,499
Total other financing sources	2,499	-	2,499
Excess Revenues and Other			
Financing Sources Over			
(Under) Expenditures	39,455	(108,361)	(68,906)
Fund Balance/Net Position, January 1	<u>176,550</u>	<u>2,205,232</u>	<u>2,381,782</u>
Fund Balance/Net Position, December :	<u>\$ 216,005</u>	<u>\$ 2,096,871</u>	<u>\$ 2,312,876</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 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 29, 2021.

## **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) as a basis for designing 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 questioned costs as 2020-001 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 financial statements. 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**

July 29, 2021

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and  
Members of the City Commission  
City of Grafton  
Grafton, North Dakota

### Report on Compliance for Each Major Federal Program

We have audited the City of Grafton's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

## Opinion on Each Major Federal Program

In our opinion, the City of Grafton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

July 29, 2021

**CITY OF GRAFTON, NORTH DAKOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Program Title	Federal CFDA Number	Grant Number Pass Through Entity Identifying Number	Expenditures
Department of Transportation			
Direct			
COVID-19 Airport Improvement Program	20.106		\$ 25,613
Airport Improvement Program	20.106		<u>239,040</u>
			<u>264,653</u>
Department of the Treasury			
Passed through North Dakota Office of Management and Budget			
COVID-19 - Coronavirus Relief Fund	21.019		614,528
Department of Homeland Security			
Passed through North Dakota Adjutant General			
Lift Station Generators	97.047	PDMC-PJ-08-ND-2017-005	20,049
Passed through North Dakota Department of Emergency Services			
Unity Medical Center Generation Project	97.047	PDMC-PJ-08-2019-011	<u>458,207</u>
			478,256
Total Federal Expenditures			<u>\$ 1,357,437</u>

See Notes to the Schedule of Expenditures of Federal Awards

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2020**

**NOTE 1    SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the accompanying schedule of expenditures of federal awards (Schedule) are reported under the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 2    INDIRECT COST RATE**

The City of Grafton has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3    BASIS OF PRESENTATION**

The accompanying Schedule includes the federal award activity of City of Grafton, North Dakota under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Grafton, North Dakota.

**CITY OF GRAFTON, NORTH DAKOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**AS OF DECEMBER 31, 2020**

**Section I-Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:

Governmental Activities	<u>Unmodified</u>
Business-Type Activities	<u>Unmodified</u>
General Fund	<u>Unmodified</u>
Sales Tax Fund	<u>Unmodified</u>
Capital Projects	<u>Unmodified</u>
Electric Fund	<u>Unmodified</u>
Water Fund	<u>Unmodified</u>
Wastewater Fund	<u>Unmodified</u>
Sanitation Fund	<u>Unmodified</u>
Pest Control Fund	<u>Unmodified</u>
Aggregate Remaining Fund Information	<u>Unmodified</u>
Discretely Presented Component Unit	<u>Unmodified</u>

Internal control over financial reporting:

Material weakness(es) identified?

X yes       no

Significant deficiency(ies) identified?

   yes    X none reported

Noncompliance material to financial  
statements noted?

   yes    X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

   yes    X no

Significant deficiency(ies) identified?

   yes    X none reported

Type of auditor's report issued on compliance  
for major programs:

Unmodified

Any audit findings disclosed that are  
required to be reported in accordance with  
2 CFR 200.516(a)?

   yes    X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

21.019	COVID-19 - Coronavirus Relief Fund
--------	------------------------------------

Dollar threshold used to distinguish  
between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

   yes    X no

**CITY OF GRAFTON, NORTH DAKOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**AS OF DECEMBER 31, 2020**

**Control Deficiency 2020-001 – Material Weakness**

Criteria:

An appropriate system of internal control requires the City 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 City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause:

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

Effect:

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

Repeat Finding:

Yes.

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 City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Response:

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



**CITY OF GRAFTON, NORTH DAKOTA**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**AS OF DECEMBER 31, 2020**

**2019-001**

Criteria:

An appropriate system of internal control requires the City 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 City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause:

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

Effect:

There is an increased risk of material misstatement to the City'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 City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Response:

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

Corrective Action Taken

See 2020-001



[www.graftongov.com](http://www.graftongov.com)

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**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2020**

**2020-001 FINDING**

Contact Person – Connie Johnson, City Auditor

Corrective Action Plan – The City will consider establishing a policy to document review of financial statements and notes.

Completion Date – Ongoing.