

**CITY OF RUGBY
RUGBY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position - Modified Cash Basis	3
Statement of Activities - Modified Cash Basis	4
Fund Financial Statements	
Balance Sheet - Governmental Funds - Modified Cash Basis	5
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position - Modified Cash Basis	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Modified Cash Basis	7
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the Government-Wide Statement of Activities - Modified Cash Basis	8
Statement of Net Position - Proprietary Funds - Modified Cash Basis	9
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds - Modified Cash Basis	10
Statement of Cash Flows - Proprietary Funds - Modified Cash Basis	11
Statement of Assets and Liabilities - Fiduciary Funds - Modified Cash Basis	12
Statement of Changes in Net Position - Fiduciary Funds - Modified Cash Basis	13
Notes to the Financial Statements	14
OTHER INFORMATION	
Budgetary Comparison Schedule – Modified Cash Basis – General Fund	38
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	39
Schedule of Findings and Responses	41

INDEPENDENT AUDITOR'S REPORT

City Council
City of Rugby
Rugby, North Dakota

Report on the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of December 31, 2020, and the respective changes in modified cash basis financial position and the cash flows, where applicable, for the year then ended in conformity with the modified cash basis of accounting described in Note 2.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rugby's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule 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 January 3, 2022, on our consideration of the City of Rugby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rugby's internal control over financial reporting and compliance.



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

January 3, 2022

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rugby Job Development Authority
ASSETS				
Cash and equivalents	\$ 2,923,024	\$ 2,284,486	\$ 5,207,510	\$ 197,023
Investments	323,590	-	323,590	176,543
Land held for resale	-	-	-	832,411
Notes receivable	-	-	-	3,000
Other assets	-	-	-	4,725
Capital assets				
Land, improvements, and construction in progress not being depreciated	237,332	52,420	289,752	-
Buildings and infrastructure, net of depreciation	6,700,140	2,948,659	9,648,799	604,887
Equipment and vehicles, net of depreciation	620,338	411,320	1,031,658	248
Intangible assets, net of amortization	-	-	-	2,601
Total assets	10,804,424	5,696,885	16,501,309	1,821,438
LIABILITIES				
Current liabilities				
Unearned revenue	500,000	-	500,000	-
Due within one year				
Bonds and notes	483,886	54,191	538,077	31,465
Long-term liabilities				
Due in more than one year				
Bonds and notes	3,001,098	428,910	3,430,008	131,332
Total liabilities	3,984,984	483,101	4,468,085	162,797
NET POSITION				
Net investment in capital assets	4,072,826	2,929,298	7,002,124	444,939
Restricted for:				
Capital projects	679,971	-	679,971	-
Debt service	576,315	-	576,315	-
Other purposes	524,560	-	524,560	-
Unrestricted	965,768	2,284,486	3,250,254	1,213,702
Total net position	\$ 6,819,440	\$ 5,213,784	\$ 12,033,224	\$ 1,658,641

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	Job Development Authority
Primary government								
Governmental activities								
General government	\$ 535,237	\$ 40,851	\$ -	\$ -	\$ (494,386)	\$ -	\$ (494,386)	
Public safety	457,628	312	276,859	-	(180,457)	-	(180,457)	
Public works	911,070	88,948	-	11,295	(810,827)	-	(810,827)	
Urban and economic development	78,940	-	-	-	(78,940)	-	(78,940)	
Culture and recreation	192,399	47,529	-	-	(144,870)	-	(144,870)	
Interest and other charges	87,612	-	-	-	(87,612)	-	(87,612)	
Total governmental activities	<u>2,262,886</u>	<u>177,640</u>	<u>276,859</u>	<u>11,295</u>	<u>(1,797,092)</u>	<u>-</u>	<u>(1,797,092)</u>	
Business-type activities								
Water operating	1,067,026	1,114,386	-	-	-	47,360	47,360	
Sanitation sewer operations	103,584	337,336	-	-	-	233,752	233,752	
Garbage	240,381	242,900	-	-	-	2,519	2,519	
Total business-type activities	<u>1,410,991</u>	<u>1,694,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,631</u>	<u>283,631</u>	
Total primary government	<u>\$ 3,673,877</u>	<u>\$ 1,872,262</u>	<u>\$ 276,859</u>	<u>\$ 11,295</u>	<u>\$ (1,797,092)</u>	<u>\$ 283,631</u>	<u>\$ (1,513,461)</u>	
Component Units								
Job Development Authority	\$ 250,907	\$ 58,800	\$ -	\$ -				\$ (192,107)
Total component units	<u>\$ 250,907</u>	<u>\$ 58,800</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (192,107)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 799,722	\$ -	\$ 799,722	\$ -
Property taxes, levied for specific purposes					260,918	-	260,918	-
Municipal highway tax					167,823	-	167,823	-
State aid distribution					203,277	-	203,277	-
Sales tax collections					511,236	-	511,236	275,281
Other taxes					8,395	-	8,395	30,310
Unrestricted investment earnings					2,602	-	2,602	520
Other revenue					209,982	-	209,982	-
Gain on sale of asset					15,831	-	15,831	-
Total general revenues					<u>2,179,786</u>	<u>-</u>	<u>2,179,786</u>	<u>306,111</u>
Change in net position					382,694	283,631	666,325	114,004
Net position - beginning					6,436,746	4,930,153	11,366,899	1,544,637
Net position - ending					<u>\$ 6,819,440</u>	<u>\$ 5,213,784</u>	<u>\$ 12,033,224</u>	<u>\$ 1,658,641</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS
DECEMBER 31, 2020

	General Fund	Highway and Streets	District 2017-1 Debt Service	Infrastructure Maintenance Fund	Municipal Infrastructure Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 665,768	\$ 82	\$ 15,463	\$ 486,744	\$ 500,000	\$ 1,254,967	\$ 2,923,024
Investments	300,000	-	-	-	-	23,590	323,590
Total assets	<u>\$ 965,768</u>	<u>\$ 82</u>	<u>\$ 15,463</u>	<u>\$ 486,744</u>	<u>\$ 500,000</u>	<u>\$ 1,278,557</u>	<u>\$ 3,246,614</u>
LIABILITIES AND FUND BALANCES							
Unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Fund balances:							
Restricted	-	82	15,463	486,744	-	1,278,557	1,780,846
Unassigned	965,768	-	-	-	-	-	965,768
Total fund balances	<u>965,768</u>	<u>82</u>	<u>15,463</u>	<u>486,744</u>	<u>-</u>	<u>1,278,557</u>	<u>2,746,614</u>
Total liabilities and fund balances	<u>\$ 965,768</u>	<u>\$ 82</u>	<u>\$ 15,463</u>	<u>\$ 486,744</u>	<u>\$ 500,000</u>	<u>\$ 1,278,557</u>	<u>\$ 3,246,614</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -
MODIFIED CASH BASIS
DECEMBER 31, 2020

Total fund balance, governmental funds		\$ 2,746,614
--	--	--------------

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

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

Capital Assets	14,510,861	
Accumulated Depreciation	<u>(6,953,051)</u>	7,557,810

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

Bonds and notes payable, net of unamortized bond discounts		<u>(3,484,984)</u>
--	--	--------------------

Net position of governmental activities in the Statement of Net Position		<u>\$ 6,819,440</u>
--	--	---------------------

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	General Fund	Highways and Streets	District 2017-1 Debt Service	Infrastructure Maintenance Fund	Municipal Infrastructure Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes and special assessments	\$ 733,805	\$ -	\$ 147,551	\$ -	\$ -	\$ 179,283	\$ 1,060,639
Sales and miscellaneous taxes	8,395	167,823	-	511,236	-	-	687,454
Fees and fines	5,061	-	-	-	-	57,331	62,392
Licenses and permits	16,450	-	-	-	-	-	16,450
Intergovernmental	480,136	-	-	-	-	-	480,136
Charges for services	19,340	-	-	31,617	-	47,841	98,798
Investment earnings	2,092	-	-	-	-	510	2,602
Other revenue	61,896	56,276	-	-	-	91,809	209,981
Total revenues	1,327,175	224,099	147,551	542,853	-	376,774	2,618,452
Expenditures							
Current:							
General government	411,316	-	718	-	-	26,486	438,520
Public safety	446,898	-	-	-	-	-	446,898
Public works	7,118	329,671	-	42,016	-	-	378,805
Urban and economic development	-	-	-	-	-	78,940	78,940
Culture and recreation	68,498	-	-	-	-	123,901	192,399
Debt service:							
Principal	14,884	12,900	280,000	-	-	170,000	477,784
Interest and other charges	1,616	1,500	40,950	-	-	51,022	95,088
Capital outlay	16,790	58,005	-	11,295	-	11,231	97,321
Total expenditures	967,120	402,076	321,668	53,311	-	461,580	2,205,755
Excess (deficiency) of revenues over expenditures	360,055	(177,977)	(174,117)	489,542	-	(84,806)	412,697
Other financing sources (uses)							
Transfers in	31,763	253,000	151,100	-	-	336,221	772,084
Transfers out	(82,100)	(100,000)	-	(584,984)	-	(5,000)	(772,084)
Total other financing sources and uses	(50,337)	153,000	151,100	(584,984)	-	331,221	-
Net change in fund balances	309,718	(24,977)	(23,017)	(95,442)	-	246,415	412,697
Fund balances - beginning	656,050	25,059	38,480	582,186	-	1,032,142	2,333,917
Fund balances - ending	\$ 965,768	\$ 82	\$ 15,463	\$ 486,744	\$ -	\$ 1,278,557	\$ 2,746,614

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

Net change in fund balances - total governmental funds: \$ 412,697

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

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

Capital outlays	97,321
Depreciation expense	(639,711)

Net effect of trade of capital asset	15,831
--------------------------------------	--------

Contributed Assets	11,295
--------------------	--------

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	477,784
--	---------

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

Amortization	7,477
--------------	-------

Change in net position of governmental activities	\$ 382,694
---	------------

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2020

	Water Operating	Sanitation Sewer Operations	Garbage	Other Enterprise Funds	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 961,435	\$ 450,395	\$63,389	\$ 809,267	\$2,284,486
Total current assets	<u>961,435</u>	<u>450,395</u>	<u>63,389</u>	<u>809,267</u>	<u>2,284,486</u>
Non-current assets:					
Capital assets:					
Land and improvements	52,420	-	-	-	52,420
Buildings and infrastructure	5,271,018	14,592	-	-	5,285,610
Equipment and vehicles	571,208	231,520	15,290	-	818,018
Less accumulated depreciation	<u>(2,633,855)</u>	<u>(106,308)</u>	<u>(3,486)</u>	<u>-</u>	<u>(2,743,649)</u>
Total non-current assets	<u>3,260,791</u>	<u>139,804</u>	<u>11,804</u>	<u>-</u>	<u>3,412,399</u>
Total assets	<u>4,222,226</u>	<u>590,199</u>	<u>75,193</u>	<u>809,267</u>	<u>5,696,885</u>
LIABILITIES					
Current liabilities:					
Bonds, notes and loans payable	54,191	-	-	-	54,191
Total current liabilities	<u>54,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,191</u>
Non-current liabilities:					
Bonds, notes and loans payable	428,910	-	-	-	428,910
Total non-current liabilities	<u>428,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,910</u>
Total liabilities	<u>483,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,101</u>
NET POSITION					
Net investment in capital assets	2,777,690	139,804	11,804	-	2,929,298
Unrestricted	961,435	450,395	63,389	809,267	2,284,486
Total net position	<u>\$3,739,125</u>	<u>\$ 590,199</u>	<u>\$75,193</u>	<u>\$ 809,267</u>	<u>\$5,213,784</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Water Operating	Sanitation Sewer Operations	Garbage	Other Enterprise Funds	Total
Revenues					
Charges for services	\$1,114,386	\$ 273,607	\$242,900	\$ 63,729	\$1,694,622
Total operating revenues	<u>1,114,386</u>	<u>273,607</u>	<u>242,900</u>	<u>63,729</u>	<u>1,694,622</u>
Operating expenses					
Water operating	786,516	-	-	-	786,516
Sanitary sewer	-	87,334	-	-	87,334
Garbage	-	-	238,197	-	238,197
Capital outlay					
Depreciation	268,366	16,250	2,184	-	286,800
Total operating expenses	<u>1,054,882</u>	<u>103,584</u>	<u>240,381</u>	<u>-</u>	<u>1,398,847</u>
Operating income (loss)	<u>59,504</u>	<u>170,023</u>	<u>2,519</u>	<u>63,729</u>	<u>295,775</u>
Non-operating revenues (expenses)					
Grant reimbursement	-	-	-	-	-
Interest expense	(12,144)	-	-	-	(12,144)
Total non-operating revenues (expenses)	<u>(12,144)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,144)</u>
Income before contributions and transfers	<u>47,360</u>	<u>170,023</u>	<u>2,519</u>	<u>63,729</u>	<u>283,631</u>
Transfers in	54,163	-	-	258,000	312,163
Transfers out	(208,000)	(50,000)	-	(54,163)	(312,163)
Total transfers	<u>(153,837)</u>	<u>(50,000)</u>	<u>-</u>	<u>203,837</u>	<u>-</u>
Change in net position	(106,477)	120,023	2,519	267,566	283,631
Total net position - beginning	3,845,602	470,176	72,674	541,701	4,930,153
Total net position - ending	<u>\$3,739,125</u>	<u>\$ 590,199</u>	<u>\$ 75,193</u>	<u>\$ 809,267</u>	<u>\$5,213,784</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Water Fund	Sanitation Sewer Operations	Garbage	Other Enterprise Funds	Total
Cash flows from operating activities:					
Receipts from customers and users	\$1,114,386	\$273,607	\$242,900	\$ 63,729	\$1,694,622
Payments to suppliers and employees	(786,516)	(87,334)	(238,197)	-	(1,112,047)
Net cash provided (used) by operating activities	<u>327,870</u>	<u>186,273</u>	<u>4,703</u>	<u>63,729</u>	<u>582,575</u>
Cash flows from non-capital financing activities:					
Net cash transfers	<u>(153,837)</u>	<u>(50,000)</u>	<u>-</u>	<u>203,837</u>	<u>-</u>
Net cash provided by noncapital and related financing activities	<u>(153,837)</u>	<u>(50,000)</u>	<u>-</u>	<u>203,837</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Repayment of long-term debt	(93,809)	-	-	-	(93,809)
Interest paid on long-term debt	(17,012)	-	-	-	(17,012)
Purchase of capital assets	(9,641)	(56,634)	-	-	(66,275)
Net cash used by capital and related financing activities	<u>(120,462)</u>	<u>(56,634)</u>	<u>-</u>	<u>-</u>	<u>(177,096)</u>
Net change in cash and cash equivalents	53,571	79,639	4,703	267,566	405,479
Cash and cash equivalents, January 1	<u>907,864</u>	<u>370,756</u>	<u>58,686</u>	<u>541,701</u>	<u>1,879,007</u>
Cash and cash equivalents, December 31	<u>\$ 961,435</u>	<u>\$450,395</u>	<u>\$ 63,389</u>	<u>\$ 809,267</u>	<u>\$2,284,486</u>
Reconciliation of operating income to net cash from operating activities:					
Operating income	\$ 59,504	\$ 170,023	\$ 2,519	\$ 63,729	\$ 295,775
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	<u>268,366</u>	<u>16,250</u>	<u>2,184</u>	<u>-</u>	<u>286,800</u>
Net cash provided (used) by operating activities	<u>\$ 327,870</u>	<u>\$186,273</u>	<u>\$ 4,703</u>	<u>\$ 63,729</u>	<u>\$ 582,575</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS
MODIFIED CASH BASIS
DECEMBER 31, 2020

	<u>Custodial Funds</u>		
	<u>REAP Investment Fund</u>	<u>CVB</u>	<u>Library</u>
Assets			
Cash and cash equivalents	\$ 171	\$ -	\$ -
Total assets	<u>\$ 171</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities			
Due to other entities	\$ 171	\$ -	\$ -
Total liabilities	<u>\$ 171</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Custodial Funds</u>		
	<u>REAP</u> <u>Investment Fund</u>	<u>CVB</u>	<u>Library</u>
Additions			
Taxes and aid collected for other entities	\$ -	\$ 64,988	\$ 58,971
Disbursements			
Taxes and aid disbursed to other entities	-	64,988	58,971
Change in net position	-	-	-
Net position - beginning	-	-	-
Net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

Rugby Job Development Authority (JDA)

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

Fund Accounting

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

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

Governmental Funds

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

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

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

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

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

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

Municipal infrastructure fund – This capital project fund is used to account for State distributions dedicated for essential infrastructure projects.

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

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

Proprietary Funds

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

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

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

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

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

Fiduciary Funds (not included in government-wide statements)

Custodial Funds – The City includes three custodial funds as follows:

REAP Investment Fund – The City applies for various grants on behalf of the REAP Investment Fund and the proceeds are submitted to the REAP Investment Fund Board.

Library – Property taxes are levied and other state aid is collected on behalf of the Library and submitted to the Library Board.

Convention and Visitors Bureau – Hotel/Motel and Restaurant/Lodging Taxes are collected on behalf of the Convention and Visitors Bureau and submitted to the Convention and Visitors Bureau Board.

Measurement Focus and Basis of Accounting

Measurement Focus

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City of Rugby’s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital

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

assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Basis of Accounting

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

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

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

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

Budgets and Budgetary Accounting

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

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

Before October 1, the proposed budget is presented to the City's council for review. The City's council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City's auditor or the revenue estimates must be changed by an affirmative vote of a majority of the City's council. Expenditures may not legally exceed

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

budgeted appropriations at the activity level. The final budget and tax levy must be approved by October 7, with the final budget being submitted to the County auditor no later than October 10.

Cash and Cash Equivalents

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

Investments

Investments are recorded at fair value. North Dakota state statute authorizes Cities to invest their surplus funds in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed, c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) obligations of the state. As of December 31, 2020, all of the City's investments consisted of certificates of deposit with local financial institutions that did not meet the criteria of cash and cash equivalents.

Land Held for Resale

The Rugby JDA currently owns 38 lots that are being developed for resale.

Capital Assets

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

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

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

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

Unearned Revenue

Unearned revenues arise when potential revenue does not meet both the "measureable" 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 RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Premiums/Discount

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

Long-Term Debt

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

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

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

Net Position

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

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

Fund Balance Classifications

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

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

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

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

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

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

- 1) Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.
- 2) Interfund services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
- 3) Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- 4) Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-wide financial statements

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

- 1) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.
- 2) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Use of Estimates

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

NOTE 3 CUSTODIAL CREDIT RISK

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

The City does have a deposit policy. The City maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2020, the City’s bank balance totaled \$5,567,579. Of the bank balance, \$4,710,738 is covered by FDIC insurance and pledged collateral, while the remaining balance of \$856,841 is uncollateralized.

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

The JDA maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2020, the JDA's bank balance totaled \$319,533, all of which is covered by FDIC insurance.

NOTE 4 PROPERTY TAXES

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

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

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

NOTE 5 NOTES RECEIVABLE – COMPONENT UNIT

The Job Development Authority issued two forgivable loans during 2016, one for \$15,000 due in five annual installments and one for \$7,500 due in three annual installments. Loan requirements will be reviewed on an annual basis on the loan anniversary date at which point annual installments will be forgiven if it is determined the borrower is in compliance. In the event of noncompliance, the annual installment will be due and payable along with interest at a rate of 6 percent. As of December 31, 2020, \$17,750 had been forgiven on the above loans and \$1,750 had been repaid.

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 is as follows:

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2020</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 237,332	\$ -	\$ -	\$ 237,332
Total capital assets not being depreciated	<u>237,332</u>	<u>-</u>	<u>-</u>	<u>237,332</u>
Capital assets being depreciated				
Buildings and infrastructure	12,690,304	22,590	-	12,712,894
Machines and vehicles	1,468,350	128,832	36,547	1,560,635
Total capital assets being depreciated	<u>14,158,654</u>	<u>151,422</u>	<u>36,547</u>	<u>14,273,529</u>
Less accumulated depreciation:				
Buildings and infrastructure	5,478,195	534,559	-	6,012,754
Machines and vehicles	844,717	105,152	9,572	940,297
Total accumulated depreciation	<u>6,322,912</u>	<u>639,711</u>	<u>9,572</u>	<u>6,953,051</u>
Total capital assets being depreciated, net	<u>7,835,742</u>	<u>(488,289)</u>	<u>26,975</u>	<u>7,320,478</u>
Governmental capital assets, net	<u>\$ 8,073,074</u>	<u>\$ (488,289)</u>	<u>\$ 26,975</u>	<u>\$ 7,557,810</u>

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

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance 12/31/2020</u>
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 52,420	\$ -	\$ -	\$ -	\$ 52,420
Construction in progress	1,084,102	-	-	(1,084,102)	-
Total capital assets not being depreciated	<u>1,136,522</u>	<u>-</u>	<u>-</u>	<u>(1,084,102)</u>	<u>52,420</u>
Capital assets being depreciated					
Buildings and infrastructure	4,494,645	2,687	-	788,278	5,285,610
Machines and vehicles	458,606	63,588	-	295,824	818,018
Total capital assets being depreciated	<u>4,953,251</u>	<u>66,275</u>	<u>-</u>	<u>1,084,102</u>	<u>6,103,628</u>
Less accumulated depreciation:					
Buildings and infrastructure	2,099,220	237,731	-	-	2,336,951
Machines and vehicles	357,629	49,069	-	-	406,698
Total accumulated depreciation	<u>2,456,849</u>	<u>286,800</u>	<u>-</u>	<u>-</u>	<u>2,743,649</u>
Total capital assets being depreciated, net	<u>2,496,402</u>	<u>(220,525)</u>	<u>-</u>	<u>1,084,102</u>	<u>3,359,979</u>
Business-type activities capital assets, net	<u>\$ 3,632,924</u>	<u>\$ (220,525)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,412,399</u>

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2020</u>
Component Unit, JDA				
Capital assets being depreciated:				
Buildings and infrastructure	\$ 804,610	\$ -	\$ -	\$ 804,610
Equipment and fixtures	3,996	-	-	3,996
Total capital assets being depreciated	<u>808,606</u>	<u>-</u>	<u>-</u>	<u>808,606</u>
Capital assets being amortized:				
Intangibles	3,585	-	-	3,585
Less accumulated depreciation:				
Buildings and infrastructure	179,607	20,115	-	199,722
Equipment and fixtures	3,583	165	-	3,748
Total accumulated depreciation	<u>183,190</u>	<u>20,280</u>	<u>-</u>	<u>203,470</u>
Less accumulated amortization:				
Intangibles	626	359	-	985
Total capital assets being depreciated or amortized, net	<u>628,375</u>	<u>(20,639)</u>	<u>-</u>	<u>607,736</u>
Component unit capital assets, net	<u>\$ 628,375</u>	<u>\$ (20,639)</u>	<u>\$ -</u>	<u>\$ 607,736</u>

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

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

Governmental Activities:	
General government	\$ 76,259
Public safety	31,188
Public works	532,264
Total depreciation expense for governmental activities	<u>\$ 639,711</u>
 Business-type Activities:	
Water operating	\$ 268,366
Sewer operating	16,250
Garbage operating	2,184
Total depreciation expense for business-type activities	<u>\$ 286,800</u>

NOTE 7 NOTES AND BONDS PAYABLE

The following is a summary of long-term debt of the City of Rugby for the year ended December 31, 2020:

<i>Governmental activities:</i>	Year-End Balance
Refunding Improvement Bonds of 2017 (Build America Bonds) The bonds carry interest rates of 3.0% and are scheduled to be fully repaid on May 1, 2024.	\$ 1,210,000
Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033.	1,065,409
Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033.	914,591
General Obligation Fire Station Bonds of 2015. The bonds carry interest rates of 1.40% - 3.00% and are scheduled to be fully repaid on May 1, 2025.	215,000
Merchant Bank Sweeper. This loan carries an interest rate of 3.75% and is scheduled to be fully repaid on May 1, 2022.	27,100
Merchant Bank Lawn Mower. This loan carries an interest rate of 4.50% and is scheduled to be fully repaid on May 1, 2021.	6,742
Merchant Bank Lawn Mower. This loan carries an interest rate of 4.25% and is scheduled to be fully repaid on June 1, 2022.	<u>17,395</u>
Total Notes and Bonds Payable- Governmental Funds Before Bond Discounts/Premiums	<u>3,456,237</u>
Less: Bond discount, net of amortization	5,247
Add: Bond premium, net of amortization	<u>33,994</u>
Total Notes and Bonds Payable- Governmental Funds	<u>\$ 3,484,984</u>

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

<i>Business-type activities:</i>	Year-End Balance
Water Revenue Bonds of 2018. The Bonds will carry an interest rate of 1.5% and are scheduled to be fully retired on September 1, 2038.	\$ 206,191
Water Revenue Bonds of 2015. The bonds carry interest rates of 2.00% - 4.00% and are scheduled to be fully retired on June 1, 2025.	255,000
Total Notes and Bonds Payable - Proprietary Funds Before Bond Premiums	<u>461,191</u>
Add: Bond premium, net of amortization	<u>21,910</u>
Total Notes and Bonds Payable - Proprietary Funds	<u><u>\$ 483,101</u></u>
<i>Component unit:</i>	Year-End Balance
Bremer Bank note. The note carries an interest rate of 7.0% and is scheduled to be fully repaid on January 1, 2026.	\$ 157,571
Rural Development Finance Corporation note. The note carries an interest rate of 1.0% and is scheduled to be fully repaid on November 23, 2021.	<u>5,226</u>
Total Notes Payable - Component Unit	<u><u>\$ 162,797</u></u>

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

The annual payment requirements on the above debt as of December 31, 2020 are as follows:

Year Ending December 31	Governmental Activities	
	Bonds and Notes	
	Principal	Interest
2021	\$ 483,886	\$ 82,210
2022	492,359	69,904
2023	490,009	57,128
2024	505,000	86,685
2025	800,000	142,856
2026-2030	684,983	44,350
	<u>\$ 3,456,237</u>	<u>\$ 483,133</u>

Year Ending December 31	Business-type Activities	
	Bonds	
	Principal	Interest
2021	\$ 54,191	\$ 13,268
2022	60,000	11,455
2023	60,000	9,305
2024	65,000	6,780
2025	65,000	3,880
2026-2030	70,000	9,825
2031-2035	75,000	4,275
2036-2038	12,000	180
	<u>\$ 461,191</u>	<u>\$ 58,968</u>

Year Ending December 31	Component Unit	
	Notes	
	Principal	Interest
2021	\$ 31,465	\$ 11,533
2022	28,381	9,337
2023	30,700	7,019
2024	33,208	4,511
2025	35,921	1,797
2026-2030	3,122	21
	<u>\$ 162,797</u>	<u>\$ 34,218</u>

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

The following is a summary of the activity in long-term liabilities for the year ended December 31, 2020:

	Balance 1/1/2020	Additions	Reductions	Balance 12/31/2020	Due Within One Year
<i>Governmental activities:</i>					
Refunding Improvement Bonds of 2013	\$ 1,135,359	\$ -	\$ (69,950)	\$ 1,065,409	\$ 69,950
Refunding Improvement Bonds of 2013	974,641	-	(60,050)	914,591	60,050
Refunding Improvement Bonds of 2017	1,490,000	-	(280,000)	1,210,000	285,000
General Obligation Fire Station Bonds of 2015	255,000	-	(40,000)	215,000	40,000
Merchant Bank Loans	79,020	-	(27,783)	51,237	28,886
	<u>\$ 3,934,020</u>	<u>\$ -</u>	<u>\$ (477,783)</u>	<u>\$ 3,456,237</u>	<u>\$ 483,886</u>
<i>Business-type activities:</i>					
Water Revenue Bonds 2015	\$ 300,000	\$ -	\$ (45,000)	\$ 255,000	\$ 45,000
Water Revenue Bonds 2018	255,000	-	(48,809)	206,191	9,191
	<u>\$ 555,000</u>	<u>\$ -</u>	<u>\$ (93,809)</u>	<u>\$ 461,191</u>	<u>\$ 54,191</u>
<i>Component unit:</i>					
Bremer Bank Note	\$ 182,850	\$ -	\$ (25,279)	\$ 157,571	\$ 26,239
Rural Development Finance Corporation Note	10,402	-	(5,176)	5,226	5,226
	<u>\$ 193,252</u>	<u>\$ -</u>	<u>\$ (30,455)</u>	<u>\$ 162,797</u>	<u>\$ 31,465</u>

During 2010, the Job Development Authority made an interest prepayment of \$44,160 on the Bremer bank note. Interest recognized in 2020 on the prepayment was \$2,606 and the remaining balance as of December 31, 2020 was \$4,725.

NOTE 8 CONDUIT DEBT OBLIGATIONS

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

Special Facility Revenue Bonds

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

Health Care Facility Revenue Bonds (Good Samaritan Hospital Association Project), Series 2013 – The \$1,215,000 Series 2013 Bonds, issued September 1, 2013, are special, limited obligations of the City, payable solely from certain project payments to be made by the Heart of America Medical Center. As of December 31, 2020, the amount outstanding was approximately \$389,166.

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

NOTE 9 FUND BALANCE

Classifications

At December 31, 2020, a summary of the governmental fund balance classifications are as follows:

	District 2017-1 Debt Service	Highway and Streets	Infrastructure Maintenance Fund	Other Governmental Funds	Total Governmental Funds
Restricted for:					
Capital Projects	\$ -	\$ -	\$ 486,744	\$ 193,227	\$ 679,971
Highways and Streets	-	82	-	-	82
Debt Service	15,463	-	-	560,852	576,315
Recreation	-	-	-	31	31
Snow Removal	-	-	-	49,521	49,521
Flood Control 1-1985	-	-	-	182,939	182,939
Economic Developer Director	-	-	-	11,663	11,663
Building Reserve	-	-	-	280,324	280,324
	<u>\$ 15,463</u>	<u>\$ 82</u>	<u>\$ 486,744</u>	<u>\$ 1,278,557</u>	<u>\$ 1,780,846</u>

Minimum Fund Balance Policy

The City's policy is to maintain a minimum fund balance of \$600,000 in the general fund. The minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue and to maintain a budget stabilization commitment.

NOTE 10 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2020 were as follows:

	General Fund	Highways and Streets	District 2017-1 Debt Service	Infrastructure Maintenance Fund	Other Governmental Funds
Transfers in	\$ 31,763	\$ 253,000	\$ 151,100	\$ -	\$ 336,221
Transfers out	(82,100)	(100,000)	-	(584,984)	(5,000)
	<u>\$ (50,337)</u>	<u>\$ 153,000</u>	<u>\$ 151,100</u>	<u>\$ (584,984)</u>	<u>\$ 331,221</u>

	Water Operating Fund	Sanitation Sewer Operations	Other Enterprise Funds	Total
Transfer in	\$ 54,163	\$ -	\$ 258,000	\$ 1,084,247
Transfer out	(208,000)	(50,000)	(54,163)	(1,084,247)
	<u>\$ (153,837)</u>	<u>\$ (50,000)</u>	<u>\$ 203,837</u>	<u>\$ -</u>

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

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

NOTE 11 RISK MANAGEMENT

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

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

NOTE 12 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 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 provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For

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

members hired on or after January 1, 2020, the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for 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 salaries and wages. 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 City's contributions to the pension plan were \$51,104 for the year ended December 31, 2020.

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:

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

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

Information about the City's Proportionate Share of Pension Obligation

Commitment Related to Proportionate Share of Net Pension Liability

At December 31, 2020, NDPERS, as a whole, reported a total net pension liability of \$3,146,021,404 of which the City's proportionate share amounted to \$1,717,507. Because of the use of a modified cash basis of accounting framework in the preparation of these financial statements, this proportionate share of the NDPERS net pension liability is not reported in the City's financial statements as a liability, and is instead disclosed herein as a commitment. In accordance with the modified cash basis of accounting, pension expense or expenditures are only reported when contributions are paid by the City to NDPERS.

The NDPERS 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 covered payroll relative to the covered payroll of all participating local governments, actuarially determined. At December 31, 2020, the City's proportion was 0.0054593 percent, which was a decrease of 0.0004671 from its proportion measured as of December 31, 2019.

Actuarial assumptions

Actuarial assumptions used in the determination of net pension liability, including mortality rates and life expectancies, long-term expected rate of return, discount rate and sensitivity of the net pension liability to changes in discount rate are available in the separately issued NDPERS financial report that can be obtained at <https://ndpers.nd.gov/>.

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. The City's contributions to the OPEB plan were \$6,712 for the year ended December 31, 2020.

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. 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 RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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 benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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.

Information about the City's Proportionate Share of OPEB Obligation

Commitment Related to Proportionate Share of Net OPEB Liability

At December 31, 2020, NDPERS, as a whole, reported a total net OPEB liability of \$84,119,770 of which the City's proportionate share amounted to \$41,830. Because of the use of a modified cash basis of accounting framework in the preparation of these financial statements, this proportionate share of the net OPEB liability is not reported in the City's financial statements as a liability, and is instead disclosed herein as a commitment. In accordance with the modified cash basis of accounting, pension expense or expenditures are only reported when contributions are paid by the City to NDPERS.

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

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 City's proportion of the net OPEB liability was based on the City's covered payroll relative to the covered payroll of all participating local governments, actuarially determined. At December 31, 2020, the City's proportion was 0.0049727 percent, which was an increase of 0.000513 from its proportion measured as of December 31, 2019.

Actuarial assumptions

Actuarial assumptions used in the determination of net OPEB liability, including mortality rates and life expectancies, long-term expected rate of return, discount rate and sensitivity of the net OPEB liability to changes in discount rate are available in the separately issued NDPERS financial report that can be obtained at <https://ndpers.nd.gov/>.

NOTE 14 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 RUGBY, 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 RUGBY, 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 15 COMMITMENTS

The City has a commitment associated with its NAWS contract with the North Dakota State Water Commission. Under the terms of the contract, the City is required to remit (on a quarterly basis) fifteen cents per each thousand gallons of water to the Commission's OM&R fund. The current contract expires February 23, 2038. As of December 31, 2020, the City remitted a total of \$203,019 to the Commission.

In 2012, the City entered into an agreement with HACTC Housing to pay \$65/day per prisoner sentenced from the City of Rugby. The rate increased to \$78/day in December 2019. The City makes monthly payments in proportion to the services rendered. Since the agreement was entered into, the City has paid \$48,776 for prisoner housing to HACTC.

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

NOTE 16 CONTINGENCIES

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

NOTE 17 JOINT VENTURES

Rugby Volunteer Fire Department

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

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

Heart of America Library

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

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

NOTE 18 SUBSEQUENT EVENTS

There were no significant events that occurred subsequent to the City's year end. Subsequent events have been evaluated through January 3, 2022, which is the date these financial statements were available to be issued.

CITY OF RUGBY, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	Original Budget	Actual Amounts, Modified Cash Basis	Variance with Original Budget - Positive (Negative)
Revenues			
Taxes and special assessments	\$ 708,860	\$ 733,805	\$ 24,945
Sales and miscellaneous taxes	8,350	8,395	45
Fees and fines	14,000	5,061	(8,939)
Licenses and permits	17,200	16,450	(750)
Intergovernmental	235,006	480,136	245,130
Charges for services	26,900	19,340	(7,560)
Investment earnings	4,200	2,092	(2,108)
Other revenue	49,700	61,896	12,196
Total revenues	<u>1,064,216</u>	<u>1,327,175</u>	<u>262,959</u>
Expenditures			
Current:			
General government	416,087	411,316	4,771
Public safety	485,101	446,898	38,203
Public works	5,995	7,118	(1,123)
Culture and recreation	79,155	68,498	10,657
Debt Service:			
Principal	-	14,884	(14,884)
Interest and other charges	-	1,616	(1,616)
Capital outlay	69,800	16,790	53,010
Total expenditures	<u>1,056,138</u>	<u>967,120</u>	<u>89,018</u>
Excess (deficiency) of revenues over expenditures	<u>8,078</u>	<u>360,055</u>	<u>351,977</u>
Other financing sources (uses)			
Transfers in	26,763	31,763	5,000
Transfers out	(30,000)	(82,100)	(52,100)
Total other financing sources and uses	<u>(3,237)</u>	<u>(50,337)</u>	<u>(47,100)</u>
Net change in fund balances	4,841	309,718	304,877
Fund balances - beginning	656,050	656,050	-
Fund balances - ending	<u>\$ 660,891</u>	<u>\$ 965,768</u>	<u>\$ 304,877</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**

To the City Council
City of Rugby
Rugby, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Rugby's basic financial statements and have issued our report thereon dated January 3, 2022.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rugby's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2020-003.

City's Responses to Findings

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

Purpose of this Report

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



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

January 3, 2022

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020

Findings Relating to Financial Statements

2020-001 *Financial Statement Preparation and Journal Entries*

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of responsible officials and planned corrective actions

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

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

2020-002 *Segregation of Duties*

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of responsible officials and planned corrective actions

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

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

2020-003 *Pledge of Securities*

Criteria

Under Section 21-04-09 of the North Dakota Century Code, the market value of collateral assigned by a depository must equal 110% of public funds deposited.

Condition

The City was not in compliance with the North Dakota Century Code as the City's deposits were undercollateralized as of December 31, 2020.

Cause

Due to the timing of a few large deposits, the City's December 31, 2020 bank balance was higher than it had anticipated when its pledged collateral was adjusted at the beginning of the month.

Effect

Loss of uncollateralized deposits in the event of a bank failure.

Recommendation

We recommend that the City work with its bank to monitor deposits regularly to ensure adequate collateralization.

Views of responsible officials and planned corrective actions

The City will work with its bank to monitor deposits for adequate collateralization on a regular basis. The bank did cover the December 31, 2020 deficit in January 2021 through additional collateral.