

**CITY OF RUGBY
RUGBY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position - Modified Cash Basis	4
Statement of Activities - Modified Cash Basis	5
Fund Financial Statements	
Balance Sheet - Governmental Funds - Modified Cash Basis	6
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position - Modified Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Modified Cash Basis	8
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the Government-Wide Statement of Activities - Modified Cash Basis	9
Statement of Net Position - Proprietary Funds - Modified Cash Basis	10
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds - Modified Cash Basis	11
Statement of Cash Flows - Proprietary Funds - Modified Cash Basis	12
Statement of Fiduciary Net Position - Fiduciary Funds - Modified Cash Basis	13
Statement of Changes in Net Position - Fiduciary Funds - Modified Cash Basis	14
Notes to the Financial Statements	15
OTHER INFORMATION	
Budgetary Comparison Schedule – Modified Cash Basis – General Fund	40
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	41
Notes to the Schedule of Expenditures of Federal Awards	42

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 <i>GOVERNMENT AUDITING STANDARDS</i>	43
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	53
CORRECTIVE ACTION PLAN	54

INDEPENDENT AUDITOR'S REPORT

City Council
City of Rugby
Rugby, North Dakota

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022, and the respective changes in modified cash basis financial position and the cash flows, where applicable, for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Rugby, North Dakota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the City of Rugby, North Dakota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted accounting standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Rugby, North Dakota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rugby, North Dakota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative

Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the modified cash basis of accounting. In our opinion, the schedule of expenditures of federal awards, as noted in the accompanying table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matters

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Budgetary Comparison Schedule but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Prior Period Adjustments

As discussed in Note 9, the City has restated its previously reported net position and fund balance. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023, 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

September 26, 2023

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2022

	Primary Government			Component Unit
	Governmental	Business-type	Total	Rugby Job Development Authority
	Activities	Activities		
ASSETS				
Cash and equivalents	\$ 3,138,125	\$ 2,838,692	\$ 5,976,817	\$ 226,804
Investments	322,746	11,572	334,318	179,649
Land held for resale	-	-	-	1,091,532
Due from Other Governmental Agencies	309,120	-	309,120	-
Other assets	-	-	-	718
Capital assets				
Land, improvements, and construction in progress not being depreciated	237,332	714,894	952,226	-
Buildings and infrastructure, net of depreciation	6,155,193	8,486,391	14,641,584	564,658
Equipment and vehicles, net of depreciation	690,941	486,073	1,177,014	-
Intangible assets, net of amortization	-	-	-	1,884
Total assets	<u>10,853,457</u>	<u>12,537,622</u>	<u>23,391,079</u>	<u>2,065,245</u>
LIABILITIES				
Current liabilities				
Unearned revenue	1,195,418	-	1,195,418	-
Due within one year				
Bonds and notes	516,273	5,041,034	5,557,307	30,700
Long-term liabilities				
Due in more than one year				
Bonds and notes	2,041,289	239,304	2,280,593	71,812
Total liabilities	<u>3,752,980</u>	<u>5,280,338</u>	<u>9,033,318</u>	<u>102,512</u>
NET POSITION				
Net investment in capital assets	4,525,904	6,497,010	11,022,914	464,030
Restricted for:				
Capital projects	1,091,652	-	1,091,652	-
Debt service	599,608	-	599,608	-
Other purposes	124,811	-	124,811	-
Unrestricted	758,502	760,274	1,518,776	1,498,703
Total net position	<u>\$ 7,100,477</u>	<u>\$ 7,257,284</u>	<u>\$ 14,357,761</u>	<u>\$ 1,962,733</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

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	Rugby Job Development Authority
Primary government								
Governmental activities								
General government	\$ 546,732	\$ 79,222	\$ -	\$ -	\$ (467,510)	\$ -	\$ (467,510)	
Public safety	498,971	-	-	6,000	(492,971)	-	(492,971)	
Public works	951,157	89,082	167,168	1,667,857	972,950	-	972,950	
Urban and economic development	84,465	83,676	15,000	-	14,211	-	14,211	
Culture and recreation	177,875	55,625	-	-	(122,250)	-	(122,250)	
Interest and other charges	50,809	-	-	-	(50,809)	-	(50,809)	
Total governmental activities	<u>2,310,009</u>	<u>307,605</u>	<u>182,168</u>	<u>1,673,857</u>	<u>(146,379)</u>	<u>-</u>	<u>(146,379)</u>	
Business-type activities								
Water operating	891,971	1,027,160	-	-	-	135,189	135,189	
Sanitation sewer operations	147,568	329,145	-	-	-	181,577	181,577	
Storm water	55,471	59,686	-	-	-	4,215	4,215	
Other Business-type Activities	256,358	336,121	-	-	-	79,763	79,763	
Total business-type activities	<u>1,351,368</u>	<u>1,752,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>400,744</u>	<u>400,744</u>	
Total primary government	<u>\$ 3,661,377</u>	<u>\$ 2,059,717</u>	<u>\$ 182,168</u>	<u>\$ 1,673,857</u>	<u>(146,379)</u>	<u>400,744</u>	<u>254,365</u>	
Component Units								
Job Development Authority	\$ 203,798	\$ 78,906	\$ -	\$ -				\$ (124,892)
Total component units	<u>\$ 203,798</u>	<u>\$ 78,906</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(124,892)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					777,611	-	777,611	-
Property taxes, levied for recreation					48,607	-	48,607	-
Property taxes, levied for other purposes					537	-	537	-
State aid distribution					227,144	-	227,144	-
Sales tax collections					564,200	-	564,200	303,800
Other taxes					6,406	-	6,406	32,381
Unrestricted investment earnings					12,794	-	12,794	584
Other revenue					86,363	796	87,159	-
Gain on sale of asset					15,109	-	15,109	-
Transfers					(1,070,670)	1,070,670	-	-
Total general revenues					<u>668,101</u>	<u>1,071,466</u>	<u>1,739,567</u>	<u>336,765</u>
Change in net position					521,722	1,472,210	1,993,932	211,873
Net position - beginning					6,795,964	5,483,576	12,279,540	1,750,860
Prior period adjustments - see Note 9					(217,209)	301,498	84,289	-
Net position - beginning, as restated					<u>6,578,755</u>	<u>5,785,074</u>	<u>12,363,829</u>	<u>1,750,860</u>
Net position - ending					<u>\$ 7,100,477</u>	<u>\$ 7,257,284</u>	<u>\$ 14,357,761</u>	<u>\$ 1,962,733</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS
DECEMBER 31, 2022

	General Fund	Infrastructure Maintenance Fund	Municipal Infrastructure Fund	2 1/2 Avenue Improvement	DWR WTP Improvements	American Rescue Plan Act	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 552,436	\$ 412,809	\$ 777,817	\$ 16,152	\$ 88,320	\$ 401,452	\$ 889,139	\$ 3,138,125
Investments	206,066	-	-	-	-	-	116,680	322,746
Receivable from other governments	-	-	-	-	309,120	-	-	309,120
Total assets	<u>\$ 758,502</u>	<u>\$ 412,809</u>	<u>\$ 777,817</u>	<u>\$ 16,152</u>	<u>\$ 397,440</u>	<u>\$ 401,452</u>	<u>\$ 1,005,819</u>	<u>\$ 3,769,991</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Unearned revenue	\$ -	\$ -	\$ 777,817	\$ 16,149	\$ -	\$ 401,452	\$ -	\$ 1,195,418
Total liabilities	<u>-</u>	<u>-</u>	<u>777,817</u>	<u>16,149</u>	<u>-</u>	<u>401,452</u>	<u>-</u>	<u>1,195,418</u>
Fund balances:								
Restricted	-	412,809	-	3	397,440	-	1,005,819	1,816,071
Unassigned	758,502	-	-	-	-	-	-	758,502
Total fund balances	<u>758,502</u>	<u>412,809</u>	<u>-</u>	<u>3</u>	<u>397,440</u>	<u>-</u>	<u>1,005,819</u>	<u>2,574,573</u>
Total liabilities and fund balances	<u>\$ 758,502</u>	<u>\$ 412,809</u>	<u>\$ 777,817</u>	<u>\$ 16,152</u>	<u>\$ 397,440</u>	<u>\$ 401,452</u>	<u>\$ 1,005,819</u>	<u>\$ 3,769,991</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, 2022

Total fund balance, governmental funds	\$	2,574,573
--	----	-----------

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	15,296,647		
Accumulated Depreciation	<u>(8,213,181)</u>		7,083,466

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>(2,557,562)</u>
--	--	--------------------

Net position of governmental activities in the Statement of Net Position	\$	<u>7,100,477</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, 2022

	General Fund	Infrastructure Maintenance Fund	Municipal Infrastructure Fund	2 1/2 Avenue Improvement	DWR WTP Improvements	American Rescue Plan Act	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes and special assessments	\$ 777,611	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 294,837	\$ 1,072,448
Sales and other taxes	6,406	564,200	-	-	-	-	167,168	737,774
Fees and fines	31,685	-	-	-	-	-	61,440	93,125
Licenses and permits	13,130	-	-	-	-	-	-	13,130
Intergovernmental	227,144	-	222,183	798,066	397,440	-	-	1,644,833
Charges for services	34,407	27,642	-	-	-	-	139,301	201,350
Investment earnings	10,471	-	-	-	-	-	2,323	12,794
Other revenue	84,245	15,000	-	-	-	-	8,118	107,363
Total revenues	1,185,099	606,842	222,183	798,066	397,440	-	673,187	3,882,817
Expenditures								
Current:								
General government	438,265	-	-	-	-	-	36,940	475,205
Public safety	469,060	-	-	-	-	-	-	469,060
Public works	6,459	57,727	-	-	-	-	344,171	408,357
Urban and economic development	-	-	-	-	-	-	84,465	84,465
Culture and recreation	72,422	-	-	-	-	-	105,453	177,875
Debt service:								
Principal	14,783	-	-	-	-	-	478,716	493,499
Interest and fees	930	-	-	82,400	-	-	64,833	148,163
Capital outlay	164,151	4,475	222,183	5,749,358	440,291	-	369,461	6,949,919
Total expenditures	1,166,070	62,202	222,183	5,831,758	440,291	-	1,484,039	9,206,543
Excess (deficiency) of revenues over expenditures	19,029	544,640	-	(5,033,692)	(42,851)	-	(810,852)	(5,323,726)
Other financing sources (uses)								
Proceeds from issuance of debt	-	-	-	4,965,000	-	-	-	4,965,000
Bond premium	-	-	-	18,271	-	-	-	18,271
Transfers in	17,564	-	-	50,424	440,291	-	534,245	1,042,524
Transfers out	(120,000)	(457,233)	-	-	-	-	(25,000)	(602,233)
Total other financing sources and uses	(102,436)	(457,233)	-	5,033,695	440,291	-	509,245	5,423,562
Net change in fund balances	(83,407)	87,407	-	3	397,440	-	(301,607)	99,836
Fund balances - beginning	841,909	325,402	-	-	-	-	1,524,635	2,691,946
Prior period adjustment - see Note 9	-	-	-	-	-	-	(217,209)	(217,209)
Fund balance - beginning, as restated	841,909	325,402	-	-	-	-	1,307,426	2,474,737
Fund balances - ending	\$ 758,502	\$ 412,809	\$ -	\$ 3	\$ 397,440	\$ -	\$ 1,005,819	\$ 2,574,573

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, 2022

Net change in fund balances - total governmental funds:	\$	99,836
---	----	--------

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		538,087
Depreciation expense		(644,238)

Gain on capital assets traded		15,109
-------------------------------	--	--------

Contributed Assets		4,475
--------------------	--	-------

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.		493,499
--	--	---------

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		14,954
--------------	--	--------

Change in net position of governmental activities	\$	<u>521,722</u>
---	----	----------------

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2022

	Water Operating	Sanitation Sewer Operations	Storm Water	Other Enterprise Funds	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,162,944	\$ 459,525	\$ 230,316	\$ 985,907	\$2,838,692
Investments	-	-	11,572	-	11,572
Total current assets	<u>1,162,944</u>	<u>459,525</u>	<u>241,888</u>	<u>985,907</u>	<u>2,850,264</u>
Non-current assets:					
Capital assets:					
Land and improvements	52,420	-	-	-	52,420
Construction in progress	662,474	-	-	-	662,474
Buildings and infrastructure	7,076,732	2,542,592	1,685,333	-	11,304,657
Equipment and vehicles	767,977	238,339	7,682	15,290	1,029,288
Less accumulated depreciation	(3,211,818)	(136,971)	(7,022)	(5,670)	(3,361,481)
Total non-current assets	<u>5,347,785</u>	<u>2,643,960</u>	<u>1,685,993</u>	<u>9,620</u>	<u>9,687,358</u>
Total assets	<u>6,510,729</u>	<u>3,103,485</u>	<u>1,927,881</u>	<u>995,527</u>	<u>12,537,622</u>
LIABILITIES					
Current liabilities:					
Bonds, notes and loans payable	<u>1,557,718</u>	<u>2,089,990</u>	<u>1,393,326</u>	-	<u>5,041,034</u>
Total current liabilities	<u>1,557,718</u>	<u>2,089,990</u>	<u>1,393,326</u>	-	<u>5,041,034</u>
Non-current liabilities:					
Bonds, notes and loans payable	<u>239,304</u>	-	-	-	<u>239,304</u>
Total non-current liabilities	<u>239,304</u>	-	-	-	<u>239,304</u>
Total liabilities	<u>1,797,022</u>	<u>2,089,990</u>	<u>1,393,326</u>	-	<u>5,280,338</u>
NET POSITION					
Net investment in capital assets	3,550,763	2,643,960	292,667	9,620	6,497,010
Unrestricted	<u>1,162,944</u>	<u>(1,630,465)</u>	<u>241,888</u>	<u>985,907</u>	<u>760,274</u>
Total net position	<u>\$4,713,707</u>	<u>\$ 1,013,495</u>	<u>\$ 534,555</u>	<u>\$ 995,527</u>	<u>\$7,257,284</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, 2022

	Water Operating	Sanitation Sewer Operations	Storm Water	Other Enterprise Funds	Total
Revenues					
Charges for services	\$1,027,032	\$ 329,145	\$ 59,686	\$ 336,121	\$1,751,984
Other revenue	128	-	-	-	128
Total operating revenues	<u>1,027,160</u>	<u>329,145</u>	<u>59,686</u>	<u>336,121</u>	<u>1,752,112</u>
Operating expenses					
Water operating	573,289	-	27,366	-	600,655
Sanitary sewer	-	96,412	-	-	96,412
Garbage	-	-	-	254,174	254,174
Depreciation	288,909	19,532	7,022	2,184	317,647
Total operating expenses	<u>862,198</u>	<u>115,944</u>	<u>34,388</u>	<u>256,358</u>	<u>1,268,888</u>
Operating income (loss)	<u>164,962</u>	<u>213,201</u>	<u>25,298</u>	<u>79,763</u>	<u>483,224</u>
Non-operating revenues (expenses)					
Interest and investment revenue	-	-	42	-	42
Other reimbursements	754	-	-	-	754
Capital contributions	917,020	356,365	237,576	-	1,510,961
Interest and fees	(29,773)	(31,624)	(21,083)	-	(82,480)
Total non-operating revenues (expenses)	<u>888,001</u>	<u>324,741</u>	<u>216,535</u>	<u>-</u>	<u>1,429,277</u>
Income before contributions and transfers	<u>1,052,963</u>	<u>537,942</u>	<u>241,833</u>	<u>79,763</u>	<u>1,912,501</u>
Transfers in	43,316	-	-	292,600	335,916
Transfers out	(190,000)	(102,600)	-	(483,607)	(776,207)
Total transfers	<u>(146,684)</u>	<u>(102,600)</u>	<u>-</u>	<u>(191,007)</u>	<u>(440,291)</u>
Change in net position	906,279	435,342	241,833	(111,244)	1,472,210
Total net position - beginning	3,911,922	464,883	-	1,106,771	5,483,576
Prior period adjustments- see Note 9	(104,494)	113,270	292,722	-	301,498
Total net position - beginning, as restated	3,807,428	578,153	292,722	1,106,771	5,785,074
Total net position - ending	<u>\$4,713,707</u>	<u>\$ 1,013,495</u>	<u>\$ 534,555</u>	<u>\$ 995,527</u>	<u>\$7,257,284</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, 2022

	Water Fund	Sanitation Sewer Operations	Storm Water	Other Enterprise Funds	Total
Cash flows from operating activities:					
Receipts from customers and users	\$1,027,032	\$329,145	\$ 59,686	\$ 336,121	\$1,751,984
Miscellaneous	128	-	-	-	128
Payments to suppliers and employees	(573,289)	(96,412)	(27,366)	(254,174)	(951,241)
Net cash provided (used) by operating activities	453,871	232,733	32,320	81,947	800,871
Cash flows from non-capital financing activities:					
Net cash transfers	(146,684)	(102,600)	-	(191,007)	(440,291)
Net cash provided by noncapital and related financing activities	(146,684)	(102,600)	-	(191,007)	(440,291)
Cash flows from capital and related financing activities:					
Grants and contributions	754	-			754
Repayment of long-term debt	(89,000)	-	-	-	(89,000)
Interest paid on long-term debt	(12,053)	-	-	-	(12,053)
Purchase of capital assets	(8,119)	(6,818)	(7,682)	-	(22,619)
Net cash used by capital and related financing activities	(108,418)	(6,818)	(7,682)	-	(122,918)
Cash flows from investing activities					
Interest from investments	-		24	-	24
Net cash provided (used) by investing activities	-		24	-	24
Net change in cash and cash equivalents	198,769	123,315	24,662	(109,060)	237,686
Cash and cash equivalents, January 1	964,175	336,210	205,654	1,094,967	2,601,006
Cash and cash equivalents, December 31	\$1,162,944	\$459,525	\$230,316	\$ 985,907	\$2,838,692
Reconciliation of operating income to net cash from operating activities:					
Operating income	\$ 164,962	\$ 213,201	\$ 25,298	\$ 79,763	\$ 483,224
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	288,909	19,532	7,022	2,184	317,647
Net cash provided (used) by operating activities	\$ 453,871	\$232,733	\$ 32,320	\$ 81,947	\$ 800,871
Noncash investing and financing activities					
Contributions from capital project funds	\$ 917,020	\$ 356,365	\$237,576	\$ -	\$1,510,961

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
MODIFIED CASH BASIS
DECEMBER 31, 2022

	<u>Custodial Funds</u>		
	REAP		
	Investment Fund	CVB	Library
Assets			
Cash and cash equivalents	\$ 171	\$ -	\$ 3,533
Total assets	<u>171</u>	<u>-</u>	<u>3,533</u>
Liabilities			
Due to other entities	<u>171</u>	<u>-</u>	<u>3,533</u>
Total liabilities	<u>171</u>	<u>-</u>	<u>3,533</u>
Net position	<u>\$ -</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, 2022

	<u>Custodial Funds</u>		
	REAP		
	<u>Investment Fund</u>	<u>CVB</u>	<u>Library</u>
Additions			
Taxes and aid collected for other entities	\$ -	\$ 71,375	\$ 56,641
Disbursements			
Taxes and aid disbursed to other entities	-	71,375	56,641
Change in net position	-	-	-
Net position - beginning	-	-	3,533
Net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,533</u>

See Notes to the Financial Statements

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

Separate financial statements for JDA can be obtained by contacting the City of Rugby's auditor at 701-766-6181.

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, 2022

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, 2022

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.

American Rescue Plan Act – This special revenue fund is used to account for funding received under the American Rescue Plan Act to be used for employee salaries.

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.

2 ½ Avenue Improvement – This capital project fund accounts for USDA funds which are being used to update the City's water distribution network; install new sanitary sewer mains, manholes, and service lines; and install new storm sewer mains, manholes, and inlets.

WTP Improvements – This capital project fund is used to account for State grant funds dedicated for water treatment plant improvements.

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

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

Storm water - This fund is used to account for the provisions of storm water services to the residents of the City.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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.

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

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

- 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. However, the City did not adopt a 2022 budget for American Rescue Plan Act funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.

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

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

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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, 2022, 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.

Due from Other Governments

Amounts due from other governments consist of unreimbursed state grant expenditures as of December 31, 2022.

Land Held for Resale

The Rugby JDA currently owns 36 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 "measurable" and "available" criteria for recognition in the current period. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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

DECEMBER 31, 2022

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

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

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

Revenues, Expenditures, and Expenses

Program revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating revenues and expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by character	Current (further classified by function)
	Debt service
	Capital outlay

Proprietary fund – by operating and nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Internal and Interfund Balances and Activities

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

Fund financial statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

- 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, 2022, the City's bank balance totaled \$6,387,542. Of the bank balance, \$650,990 was covered through FDIC and the remaining \$5,736,552 was covered through collateral pledged on behalf of the City.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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, 2022, the JDA's bank balance totaled \$407,009, 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 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 is as follows:

	Balance 1/1/2022	Additions	Deletions	Transfers	Balance 12/31/2022
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 237,332	\$ -	\$ -	\$ -	\$ 237,332
Construction in progress	14,800	316,261	-	(331,061)	-
Total capital assets not being depreciated	<u>252,132</u>	<u>316,261</u>	<u>-</u>	<u>(331,061)</u>	<u>237,332</u>
Capital assets being depreciated					
Buildings and infrastructure	12,744,612	168,800	-	331,061	13,244,473
Machines and vehicles	1,750,144	112,173	47,475	-	1,814,842
Total capital assets being depreciated	<u>14,494,756</u>	<u>280,973</u>	<u>47,475</u>	<u>331,061</u>	<u>15,059,315</u>
Less accumulated depreciation:					
Buildings and infrastructure	6,547,723	541,557	-	-	7,089,280
Machines and vehicles	1,029,133	102,681	7,913	-	1,123,901
Total accumulated depreciation	<u>7,576,856</u>	<u>644,238</u>	<u>7,913</u>	<u>-</u>	<u>8,213,181</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>6,917,900</u>	<u>(363,265)</u>	<u>39,562</u>	<u>331,061</u>	<u>6,846,134</u>
Governmental capital assets, net of accumulated depreciation	<u>\$ 7,170,032</u>	<u>\$ (47,004)</u>	<u>\$ 39,562</u>	<u>\$ -</u>	<u>\$ 7,083,466</u>

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

	<u>Balance 1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance 12/31/2022</u>
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 52,420	\$ -	\$ -	\$ -	\$ 52,420
Construction in progress	185,401	662,474	-	(185,401)	662,474
Total capital assets not being depreciated	<u>237,821</u>	<u>662,474</u>	<u>-</u>	<u>(185,401)</u>	<u>714,894</u>
Capital assets being depreciated					
Buildings and infrastructure	5,369,898	5,749,358	-	185,401	11,304,657
Machines and vehicles	1,006,669	22,619	-	-	1,029,288
Total capital assets being depreciated	<u>6,376,567</u>	<u>5,771,977</u>	<u>-</u>	<u>185,401</u>	<u>12,333,945</u>
Less accumulated depreciation:					
Buildings and infrastructure	2,574,713	243,555	-	-	2,818,268
Machines and vehicles	469,121	74,092	-	-	543,213
Total accumulated depreciation	<u>3,043,834</u>	<u>317,647</u>	<u>-</u>	<u>-</u>	<u>3,361,481</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>3,332,733</u>	<u>5,454,330</u>	<u>-</u>	<u>185,401</u>	<u>8,972,464</u>
Business-type activities capital assets, net of accumulated depreciation	<u>\$ 3,570,554</u>	<u>\$ 6,116,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,687,358</u>

	<u>Balance 1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2022</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	219,837	20,115	-	239,952
Equipment and fixtures	3,913	83	-	3,996
Total accumulated depreciation	<u>223,750</u>	<u>20,198</u>	<u>-</u>	<u>243,948</u>
Less accumulated amortization:				
Intangibles	1,344	357	-	1,701
Total capital assets being depreciated or amortized, net of accumulated depreciation	<u>587,097</u>	<u>(20,555)</u>	<u>-</u>	<u>566,542</u>
Component unit capital assets, net of accumulated depreciation	<u>\$ 587,097</u>	<u>\$ (20,555)</u>	<u>\$ -</u>	<u>\$ 566,542</u>

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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

Governmental Activities:	
General government	\$ 71,527
Public safety	29,911
Public works	542,800
Total depreciation expense for governmental activities	<u>\$ 644,238</u>
Business-type Activities:	
Water operating	\$ 288,909
Sewer operating	19,532
Garbage operating	2,184
Storm Water operating	7,022
Total depreciation expense for business-type activities	<u>\$ 317,647</u>

NOTE 6 NOTES AND BONDS PAYABLE

The following is a summary of long-term debt of the City of Rugby for the year ended December 31, 2022:

	<u>Year-End Balance</u>
<i>Governmental activities:</i>	
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.	\$ 630,000
Refunding Improvement Bonds of 2021 The bonds carry interest rates of 2.00% and are scheduled to be fully repaid on May 1, 2033.	1,685,000
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.	135,000
Merchant Bank Ford F150. This loan carries an interest rate of 2.95% and is scheduled to be fully repaid on March 1, 2024.	<u>12,757</u>
Total Notes and Bonds Payable- Governmental Funds Before Bond Discounts/Premiums	2,462,757
Less: Bond discount, net of amortization	(2,000)
Add: Bond premium, net of amortization	<u>96,805</u>
Total Notes and Bonds Payable- Governmental Funds	<u>\$ 2,557,562</u>

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

<i>Business-type activities:</i>	<u>Year-End Balance</u>
2022 Loan Anticipation Revenue Bonds. The Bonds will carry an interest rate of 2.625% and are scheduled to be fully retired on December 1, 2023	\$ 4,965,000
Water Revenue Bonds of 2018. The bonds carry interest rates of 1.5% and are scheduled to be fully retired on September 1, 2038.	132,000
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.	<u>160,000</u>
Total Notes and Bonds Payable - Proprietary Funds Before Bond Premiums	5,257,000
Add: Bond premium, net of amortization	<u>23,341</u>
Total Notes and Bonds Payable - Proprietary Funds	<u>\$ 5,280,341</u>
 <i>Component unit:</i>	 <u>Year-End Balance</u>
Bremer Bank note. The note carries an interest rate of 7.0% and is scheduled to be fully repaid on January 1, 2026.	 <u>\$ 102,512</u>
Total Notes Payable - Component Unit	 <u>\$ 102,512</u>

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The annual payment requirements on the above debt as of December 31, 2022 are as follows:

Year Ending December 31	Governmental Activities	
	Bonds and Notes	
	Principal	Interest
2023	\$ 501,319	\$ 50,306
2024	511,438	36,517
2025	190,000	27,324
2026	145,000	23,749
2027	150,000	20,799
2028-2032	795,000	57,549
2033-2037	170,000	1,699
	<u>\$ 2,462,757</u>	<u>\$ 217,943</u>

Year Ending December 31	Business-type Activities	
	Bonds	
	Principal	Interest
2023	\$ 5,025,000	\$ 139,246
2024	65,000	6,390
2025	65,000	3,490
2026	10,000	1,965
2027	15,000	1,815
2028-2032	75,000	5,700
2033-2037	2,000	465
	<u>\$ 5,257,000</u>	<u>\$ 159,071</u>

Year Ending December 31	Component Unit	
	Notes	
	Principal	Interest
2023	\$ 30,700	\$ 7,019
2024	33,208	4,511
2025	35,921	1,797
2026	2,683	21
	<u>\$ 102,512</u>	<u>\$ 13,348</u>

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The following is a summary of the activity in long-term liabilities for the year ended December 31, 2022:

	Balance 1/1/2022	Additions	Reductions	Balance 12/31/2022	Due Within One Year
<i>Governmental activities:</i>					
Refunding Improvement Bonds of 2017	\$ 925,000	\$ -	\$ (295,000)	\$ 630,000	\$ 310,000
General Obligation Fire Station Bonds of 2015	175,000	-	(40,000)	135,000	45,000
Refunding Improvement Bonds of 2021	1,815,000	-	(130,000)	1,685,000	140,000
Merchant Bank Loans	41,256	-	(28,499)	12,757	6,319
	<u>\$ 2,956,256</u>	<u>\$ -</u>	<u>\$ (493,499)</u>	<u>\$ 2,462,757</u>	<u>\$ 501,319</u>
<i>Business-type activities:</i>					
Loan Anticipation Revenue Bonds 2022	\$ -	\$ 4,965,000	\$ -	\$ 4,965,000	\$ 4,965,000
Water Revenue Bonds 2015	210,000	-	(50,000)	160,000	50,000
Water Revenue Bonds 2018	171,000	-	(39,000)	132,000	10,000
	<u>\$ 381,000</u>	<u>\$ 4,965,000</u>	<u>\$ (89,000)</u>	<u>\$ 5,257,000</u>	<u>\$ 5,025,000</u>
<i>Component unit:</i>					
Bremer Bank Note	\$ 130,013	\$ -	\$ (27,501)	\$ 102,512	\$ 30,700
	<u>\$ 130,013</u>	<u>\$ -</u>	<u>\$ (27,501)</u>	<u>\$ 102,512</u>	<u>\$ 30,700</u>

During 2010, the Job Development Authority made an interest prepayment of \$44,160 on the Bremer bank note. Interest recognized in 2022 on the prepayment was \$718 and the remaining balance as of December 31, 2022 was \$1,793.

Principal on the 2022 Loan Anticipation Revenue Bonds is payable on December 1, 2023 and will be repaid with permanent financing from a USDA loan in the amount of \$4,934,000, which will be scheduled for repayment over a period of 40 years.

NOTE 7 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, 2022, the amount outstanding was approximately \$111,101.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 8 FUND BALANCE

Classifications

At December 31, 2022, governmental fund balances are restricted as follows:

	Infrastructure Maintenance Fund	Municipal Infrastructure	2 1/2 Avenue Improvement	Other Governmental Funds	Total Governmental Funds
Restricted for:					
Capital Projects	\$ 412,809	\$ 3	\$ 397,440	\$ 257,582	\$ 1,067,834
Highways and Streets	-	-	-	23,818	23,818
Debt Service	-	-	-	599,608	599,608
Recreation	-	-	-	31,558	31,558
Snow Removal	-	-	-	8,260	8,260
Economic Developer Director	-	-	-	1,794	1,794
Building Reserve	-	-	-	83,199	83,199
	<u>\$ 412,809</u>	<u>\$ 3</u>	<u>\$ 397,440</u>	<u>\$ 1,005,819</u>	<u>\$ 1,816,071</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 9 PRIOR PERIOD ADJUSTMENTS

During the year the City reclassified its flood control fund previously reported with other governmental funds, as a proprietary fund. Additionally, construction in progress for the 2 ½ Ave Improvement Project was not correctly allocated within the proprietary funds in the previous year. Beginning net position and fund balance were restated as follows:

	Net Position					Fund Balance
	Governmental Activities	Business-Type Activities	Water Fund	Sewer Fund	Storm Water Fund	Other Governmental Funds
Equity Transfer	\$ (217,209)	\$ 217,209	\$ -	\$ -	\$ 217,209	\$ (217,209)
Construction in Progress	-	84,289	(104,494)	113,270	75,513	-
Total	<u>\$ (217,209)</u>	<u>\$ 301,498</u>	<u>\$ (104,494)</u>	<u>\$ 113,270</u>	<u>\$ 292,722</u>	<u>\$ (217,209)</u>

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 10 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2022 were as follows:

	General Fund	Infrastructure Maintenance Fund	2 1/2 Ave Improvements	DWR WTP Improvements	Other Governmental Funds
Transfers in	\$ 17,564	\$ -	\$ 50,424	\$ 440,291	\$ 534,245
Transfers out	(120,000)	(457,233)	-	-	(25,000)
	<u>\$ (102,436)</u>	<u>\$ (457,233)</u>	<u>\$ 50,424</u>	<u>\$ 440,291</u>	<u>\$ 509,245</u>

	Water Operating Fund	Sanitation Sewer Operations	Other Enterprise Funds	Total
Transfer in	\$ 43,316	\$ -	\$ 292,600	\$ 1,378,440
Transfer out	(190,000)	(102,600)	(483,607)	(1,378,440)
	<u>\$ (146,684)</u>	<u>\$ (102,600)</u>	<u>\$ (191,007)</u>	<u>\$ -</u>

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

NOTE 11 RISK MANAGEMENT

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

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

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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 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. The Main Plan will be closed to new employees with the passage of House Bill 1040. The effective date is dependent upon NDPERS implementing the changes to set up a new defined contribution (DC) plan. If the DC plan is set up by December 31, 2023, then the effective date of the Main Plan closure will be January 1, 2024. If the changes cannot be accomplished by then, the effective date will be January 1, 2025.

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

Death and Disability Benefits

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

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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. Employer contribution rates increase by 1% beginning January 1, 2024. The City's contributions to the pension plan were \$73,614 for the year ended December 31, 2022.

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

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

Information about the City's Proportionate Share of Pension Obligation

Commitment Related to Proportionate Share of Net Pension Liability

At December 31, 2022, NDPERS, as a whole, reported a total net pension liability of \$2,880,066,589 of which the City's proportionate share amounted to \$1,584,584. 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, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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, 2022, the City's proportion was 0.00055019 percent, which was an increase of 0.00000789 percent from its proportion measured as of **December 31, 2021**.

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.

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 \$6,924 for the year ended December 31, 2022.

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.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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, 2022, NDPERS, as a whole, reported a total net OPEB liability of \$120,030,959 of which the City's proportionate share amounted to \$44,426. 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.

The net OPEB liability was measured as of June 30, 2022, 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, 2022, the City's proportion was 0.00037012 percent, which was a decrease of 0.00003929 percent from its proportion measured as of **December 31, 2021**.

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. 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

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the entity'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, 2022, the City has remitted a total of \$251,988 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 and \$79.50/day in January 2022. The City makes monthly payments in proportion to the services rendered. Since the agreement was entered into, the City has paid \$49,954 for prisoner housing to HACTC.

In 2021, the City entered into a contract for street and utility improvements. The total price of the contract is \$5,401,893. As of December 31, 2022, the City has made payments of \$5,316,934.

In 2022, the City entered into a contract for water treatment plant improvements. The total price of the contract is \$736,000. As of December 31, 2022, the City has made payments of \$662,400.

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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 3.73 mill contribution from Pierce County and a 6.47 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 September 26, 2023, 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, 2022

	Original/Final Budget	Actual Amounts, Modified Cash Basis	Variance with Budget
Revenues			
Taxes and special assessments	\$ 763,446	\$ 777,611	\$ 14,165
Sales and miscellaneous taxes	8,600	6,406	(2,194)
Fees and fines	41,200	31,685	(9,515)
Licenses and permits	19,050	13,130	(5,920)
Intergovernmental	172,300	227,144	54,844
Charges for services	36,700	34,407	(2,293)
Investment earnings	6,700	10,471	3,771
Other revenue	65,000	84,245	19,245
Total revenues	<u>1,112,996</u>	<u>1,185,099</u>	<u>72,103</u>
Expenditures			
Current:			
General government	414,801	438,265	(23,464)
Public safety	550,320	469,060	81,260
Public works	6,709	6,459	250
Culture and recreation	64,860	72,422	(7,562)
Debt Service:			
Principal	-	14,783	(14,783)
Interest and other charges	-	930	(930)
Capital outlay	169,850	164,151	5,699
Total expenditures	<u>1,206,540</u>	<u>1,166,070</u>	<u>40,470</u>
Excess (deficiency) of revenues over expenditures	<u>(93,544)</u>	<u>19,029</u>	<u>112,573</u>
Other financing sources (uses)			
Transfers in	17,564	17,564	-
Transfers out	(115,000)	(120,000)	(5,000)
Total other financing sources and uses	<u>(97,436)</u>	<u>(102,436)</u>	<u>(5,000)</u>
Net change in fund balances	(190,980)	(83,407)	107,573
Fund balances - beginning	841,909	841,909	-
Fund balances - ending	<u>\$ 650,929</u>	<u>\$ 758,502</u>	<u>\$ 107,573</u>

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>AL#</u>	<u>Federal Grants</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
	Direct Award	
10.760	Water and Waste Disposal Systems for Rural Communities	\$ 5,732,066

See Notes to the Required Supplementary Information

CITY OF RUGBY, NORTH DAKOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying Schedule of Expenditures of Federal Awards (the "Schedule") are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 - INDIRECT COST RATE

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

NOTE 3 - BASIS OF PRESENTATION

The Schedule includes the federal award activity of City of Rugby under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Rugby, it is not intended to and does not present the financial position or changes in net position of the City.

**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, 2022, 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 September 26, 2023.

Report On 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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 to be material weaknesses.

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 questioned costs as item 2022-003 to be a significant deficiency.

Report On 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on City of Rugby's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Rugby's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

September 26, 2023

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

City Council
City of Rugby
Rugby, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Rugby's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Rugby's major federal programs for the year ended December 31, 2022. City of Rugby's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Rugby complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Rugby and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Rugby's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Rugby's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Rugby's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Rugby's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Rugby's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Rugby's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Rugby's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



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

September 26, 2023

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? x yes none reported
Significant deficiency(ies) identified that are
not considered to be material weaknesses? x yes none reported

Non-compliance material to financial
statements noted? yes x no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified that are
not considered to be material weaknesses? yes x none reported

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

Any audit findings disclosed that are
required to be reported in accordance with
2 CFR 200.516(a)? yes x no

Identification of major programs:

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS

2022-001 *Financial Statement Preparation*

Criteria

An appropriate system of internal control requires the City to prepare financial statements in compliance with the modified cash basis of accounting.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the council. However, the City currently does not prepare financial statements, including accompanying note disclosures, as required by modified cash basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

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

Effect

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

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

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 QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

2022-002 *Proposition of Journal Entries*

Criteria

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the modified cash basis of accounting.

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause

The City's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Effect

The City's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

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 QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

2022-003 *Segregation of Duties*

Criteria

A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings and reconciliation.

Cause

The City is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of 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

We recommend the City review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

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 QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

SECTION III – Federal Award Findings and Questioned Costs

None

CITY OF RUGBY, NORTH DAKOTA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2022

2021-001

Criteria

An appropriate system of internal control requires the City to prepare financial statements in compliance with the modified cash basis of accounting.

Corrective Action Plan

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.

Current Year Status

See finding 2022-001

2021-002

Criteria

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the modified cash basis of accounting.

Corrective Action

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.

Current Year Status

See finding 2022-002

2021-003

Criteria

A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping and reconciliation.

Corrective Action Plan

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.

Current Year Status

See finding 2022-003

OFFICERS

MAYOR: **MUNICIPAL JUDGE:**

Frank LaRocque Leo Adam Jr.

AUDITOR: **FIRE CHIEF:**

Jennifer Stewart Derek Bush

ATTORNEY: **BUILDING INSPECTOR:**

Kathleen Murray Wayne Schmaltz

CHIEF OF POLICE:

Scott Bommersbach



**CITY OF
RUGBY**

223 South Main Avenue
RUGBY, ND 58368

COUNCIL MEMBERS

FIRST WARD

Neil Lotvedt - Jon Nelson

SECOND WARD

David Schneibel - Gary Kraft

THIRD WARD

Bruce Gannarelli - Richard Larson

FOURTH WARD

Jennifer Zachmeier - Maurus Brossart

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2022

2022-001

Contact Person

Jennifer Stewart, City Auditor

Planned Corrective Action

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.

Planned Completion Date

Ongoing

2022-002

Contact Person

Jennifer Stewart, City Auditor

Planned Corrective Action

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.

Planned Completion Date

Ongoing

2022-003

Contact Person

Jennifer Stewart, City Auditor

Planned Corrective Action

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.

Planned Completion Date

Ongoing