

**CITY OF GRAFTON
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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CITY OF GRAFTON, NORTH DAKOTA
OFFICIAL DIRECTORY
AS OF DECEMBER 31, 2016

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
David Fellman	Council Member – At Large	2018
Chris Lipsh	Council Member – At Large	2018
Mary Stark	Council Member – At Large	2018
Brian Sieben	Council Member - At Large	2018
Shane Mohn	Council Member – First Ward	2020
Greg Young	Council Member - Second Ward	2020
Don Hutson	Council Member - Fourth Ward	2020
Phil Ray	Council Member - Third Ward	2020

OFFICERS AND MAYOR

Chris Lipsh	President
Greg Young	Vice-President
Chris West	Mayor

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Grafton, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota, as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of employers share of net pension liability and schedule of employer contributions to North Dakota Public Employee Retirement System on pages 5-12 and 47-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grafton, North Dakota's basic financial statements. The official directory and combining non major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2017, on our consideration of the City of Grafton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Grafton's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

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

June 1, 2017

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

As management of the City of Grafton, we are pleased to offer readers of the City of Grafton's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider it in conjunction with the additional information presented in the basic financial statements and the notes to the financial statements.

Using This Annual Report:

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

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

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

Government-wide Financial Statements:

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Fund Financial Statements:

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

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

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

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

The City of Grafton maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, and the following major funds: 2012 General Obligation Bond Fund, 2015 Refunding Bond, Grafton Community Development Sales Tax Fund and Flood Control Fund. Data from the other special revenue, debt service and capital project funds are combined into a single, aggregated presentation.

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Notes to the Financial Statements:

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

Financial Analysis of the City as a whole:

The City's net position for the years ended December 31, 2016 and 2015 is summarized below; see the statement of net position in the financial statements for more detail.

	Governmental Activities		Business-Type Activities	
	12/31/16	12/31/15	12/31/16	12/31/15
ASSETS				
Current assets	\$ 6,072,295	\$ 6,700,550	\$ 3,497,603	\$ 4,229,575
Capital assets				
Property, plant and equipment	13,370,864	13,187,163	26,337,675	26,404,811
Construction in progress	5,144,411	2,952,656	7,181,732	3,510,723
Less accumulated depreciation	(3,560,809)	(3,369,060)	(18,016,870)	(18,094,612)
Other non-current assets	2,146,627	2,550,675	213,315	149,875
TOTAL ASSETS	23,173,388	22,021,984	19,213,455	16,200,372
DEFERRED OUTFLOWS OF RESOURCES	319,125	134,480	126,095	61,764
LIABILITIES				
Current Liabilities	284,883	547,238	816,483	1,336,959
Long-term Liabilities				
Bonds and notes payable-Due within one year	282,573	349,500	234,000	267,000
Bonds and notes payable-Noncurrent portion	5,577,880	5,814,400	2,619,424	1,527,083
Net pension liability	998,092	683,796	477,536	314,053
TOTAL LIABILITIES	7,143,428	7,394,934	4,147,443	3,445,095
DEFERRED INFLOWS OF RESOURCES	91,636	195,959	43,841	89,999
NET POSITION				
Net Investment in Capital Assets	9,142,086	8,641,859	12,649,113	10,026,839
Restricted	3,170,115	4,667,383	315,728	442,778
Unrestricted	3,945,248	1,256,329	2,183,425	2,257,425
TOTAL NET POSITION	\$ 16,257,449	\$ 14,565,571	\$ 15,148,266	\$ 12,727,042

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Governmental Activities:

The City of Grafton's governmental activities net position increased \$1,691,878 for the year ended December 31, 2016. Key elements and a detailed summary of this increase are shown below.

Business-type Activities:

Business-type activities increased the City of Grafton's net position by \$2,421,224. Comparisons of net position can be seen on page 7 of this report with a detailed change in the City's business-type activities by function shown below.

	Governmental Activities		Business-Type Activities	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
REVENUES				
Program Revenues:				
Charges for services	\$ 369,503	\$ 390,941	\$ 7,938,573	\$ 7,487,112
Capital grants and contributions	555,029	-	2,811,439	1,623,282
Total program revenues	924,532	390,941	10,750,012	9,110,394
General Revenues:				
Taxes	1,835,070	1,862,949	-	-
Special assessments	13,302	24,087	-	-
Intergovernmental	1,526,387	1,545,076	-	-
Other	17,764	164,325	59,747	51,742
Total general revenues	3,392,523	3,596,437	59,747	51,742
Total revenues	4,317,055	3,987,378	10,809,759	9,162,136
EXPENSES				
Governmental:				
General government	577,476	706,562	-	-
Public safety	964,979	930,276	-	-
Highways and streets	1,068,562	863,547	-	-
Health and welfare	58,077	57,309	-	-
Other	639,049	753,762	-	-
Interest	197,038	187,848	-	-
Fiscal charges	-	1,350	-	-
Bond issuance costs	-	65,350	-	-
Business type activities operating expenses:				
Electric	-	-	5,546,223	5,426,270
Water	-	-	1,018,495	900,117
Wastewater	-	-	422,122	395,588
Sanitation	-	-	370,728	321,715
Pest control	-	-	150,968	105,154
Total expenses	3,505,181	3,566,004	7,508,536	7,148,844
Change in net position before transfers	811,874	421,374	3,301,223	2,013,292
Transfers in (out)	880,000	681,749	(880,000)	(681,749)
Change in net position	1,691,874	1,103,123	2,421,223	1,331,543
Net position beginning of year	14,565,575	14,243,305	12,727,042	11,722,043
GASB 68 and 71 Implementation	-	(780,857)	-	(326,544)
Net position end of year	\$ 16,257,449	\$ 14,565,571	\$ 15,148,265	\$ 12,727,042

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Financial Analysis of the Government's Funds:

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

Governmental Funds:

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

As of the end of the fiscal year, the City of Grafton's governmental funds reported combined ending fund balances of \$5,047,376.

The General Fund is the chief operating fund of the City of Grafton. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,013,643 while the total fund balance was \$1,838,575. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total expenditures. Unassigned fund balance represents 56% of the total general fund balance and 41% of total general fund expenditures.

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

2012 General Obligation	\$ 325,066
Development Sales Tax	1,928,334
Flood Control	577,573
Other Governmental Funds	377,828

2012 General Obligation – This surplus represents excess cash and investments that have been restricted for the retirement of debt in 2012 General Obligation Bond issues.

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Proprietary Funds

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

Unrestricted net position of the City of Grafton proprietary funds at the end of the year amounted to over \$2,183,425. This balance consisted of \$613,142 in the Electric fund, \$1,076,360 in the Water fund, \$155,741 in the Wastewater fund, and \$277,414 and \$60,768 in the Sanitation and Pest Control funds, respectively.

Governmental Fund Budgetary Highlights

The General Fund expenditures were amended \$306,389 due to purchases from assigned funds whereby the current year budget was increased to reflect the expense. The largest purchase was \$212,777 for a street sweeper.

The City Council amended the Sales Tax budget by appropriating an additional \$100,000 to the Grow Grafton program which includes a \$20,000 incentive to those who build a new home in Grafton. Other Sales Tax Fund amendments were made for purchases from assigned funds. The Lodging Tax Fund was amended \$500 to include a sponsorship and the amendments to the Airport Fund budget in the amount of \$276,165 were due to several grants, including a 95% federal/state funded grant for a new Airport Layout Plan.

Assigned funds were appropriations from previous budgets and reserved by the City Council to be spent at a later date. The amounts were transferred from the assigned fund balance and the 2016 budget was increased as expenditures were made.

Capital Assets and Debt Administration

Capital Assets

The City of Grafton's capital assets for its governmental and business-type activities as of December 31, 2016 amounted to \$30,457,003 (net of accumulated depreciation). The capital assets included land, buildings and improvements, transmission system, vehicles and equipment, infrastructure and work in progress. The total in the City of Grafton's investment in capital assets for the current fiscal year was an increase of \$2,183,707 in the governmental activities and an increase of \$3,681,615 in the business-type activities. The significant additions in the governmental activities were costs related to the City's flood protection project and in the business type activities the water improvement project.

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Debt

At year-end, the City had outstanding long-term debt of \$6,858,545, a decrease of \$32,554 compared to last year. Additional information on the City of Grafton's debt can be found in Note 4 beginning on page 34 of this report.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of the assessed valuation of taxable property within the city. The current debt limitation is approximately \$3,700,000, which is significantly in excess of the City of Grafton's existing general obligation debt.

Below is the debt activity for the year ended December 31, 2016:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>New Issues</u>	<u>Retired</u>	<u>Other</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Refunding Improvement Bonds:							
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,270,000	\$ -	\$ (150,000)	\$ -	\$ 3,120,000	\$ 25,000
Bond Premium		40,400	-	-	(2,020)	38,380	
\$405,000 of 2008B	3.15% - 3.7%	100,000	-	(40,000)	-	60,000	40,000
General Obligation Bonds 2012	.4%-1.4%	645,000	-	(85,000)	-	560,000	90,000
Sales Tax Revenue Bonds							
\$2,350,000 2008A	3.5% - 5.5%	2,035,000	-	(50,000)	-	1,985,000	55,000
Compensated Absences		43,403	-	-	4,670	48,073	-
Other Debt:							
Due to Electric -General Fund Fire	0.00%	73,500	-	(24,500)	-	49,000	24,500
Net Pension Liability		683,796	-	-	314,296	998,092	-
		<u>\$ 6,891,099</u>	<u>\$ -</u>	<u>\$ (349,500)</u>	<u>\$ 316,946</u>	<u>\$ 6,858,545</u>	<u>\$ 234,500</u>

<u>BUSINESS-TYPE ACTIVITIES</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>New Issues</u>	<u>Retired</u>	<u>Other</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>Water</u>							
ND Municipal Bond Bank Water Revenue Bonds	2.50%	\$ 115,000	\$ -	\$ (15,000)	\$ -	\$ 100,000	\$ 15,000
ND Municipal Bond Bank	2.50%	542,000	-	(62,000)	-	480,000	63,000
ND Municipal Bond Bank	2.00%	935,921	975,968	(120,000)	-	1,791,889	125,000
Net Pension Liability		130,751	-	-	61,815	192,566	-
		<u>\$ 1,723,672</u>	<u>\$ 975,968</u>	<u>\$ (197,000)</u>	<u>\$ 61,815</u>	<u>\$ 2,564,455</u>	<u>\$ 203,000</u>
<u>Wastewater</u>							
ND Public Finance-Clean Water Loan	2.00%	\$ 51,162	\$ 311,373	\$ (1,000)	\$ -	\$ 361,535	\$ 1,000
ND Public Finance-Sewer Revenue Bonds	2.50%	150,000	-	(30,000)	-	120,000	30,000
Net Pension Liability		52,679	-	-	19,501	72,180	-
		<u>\$ 253,841</u>	<u>\$ 311,373</u>	<u>\$ (31,000)</u>	<u>\$ 19,501</u>	<u>\$ 553,715</u>	<u>\$ 31,000</u>
<u>Electric</u>							
Net Pension Liability		<u>\$ 130,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,167</u>	<u>\$ 212,790</u>	<u>\$ -</u>

CITY OF GRAFTON, NORTH DAKOTA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Economic Factors and Next Year's Budgets and Rates

The City of Grafton is continuing to work towards securing a permanent flood control project for the community estimated at \$54,000,000. The State has committed to 63% of the total project cost. The local share of 37% is being financed by low interest loans from the State and sale of bonds. The design phase is near completion and construction is anticipated to be bid late summer of 2017. The purchase of land for the project is at about 43% completion. By 2020-21, the city should be removed from the flood plain; therefore removing the flood insurance requirement. Sales tax funds have been designated to fund the Flood Risk Reduction project by a citizen vote to increase the sales tax rate by an additional ½% effective through March 31, 2040.

The Grafton Water Treatment Plant (WTP) Phase III will be completed this summer at an estimated cost of \$6.78M.

A new VA clinic and a new community health center will be breaking ground in 2017. Midwest Fabrication began business in January and employs 12 FTE.

Electric rates were adjusted 5.66% in 2017 along with the customer base charges being increased to cover the increased cost of maintaining infrastructure. Water rates were adjusted 5.3%, or \$5.97 per 1,000 gallons and wastewater rates adjusted 13.33%, or \$2.55 per 1,000 gallons.

The value of a mill for the 2017 budget is \$6,702 and is anticipated to be approximately \$6,870 for 2018.

Contacting the City's Financial Management

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

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

	Primary Government			
	Governmental Activities	Business- Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 2,414,470	\$ 486,836	\$ 2,901,306	\$ 154,538
Restricted cash and cash equivalents	-	128,413	128,413	-
Investments	2,662,138	1,078,054	3,740,192	436,912
Receivables:				
Taxes	35,421	-	35,421	1,451
Accounts (net of uncollectibles)	-	1,069,017	1,069,017	-
Other	-	385,263	385,263	53,040
Special assessments	798,137	-	798,137	-
Interest	9,162	3,964	13,126	766
Notes-current portion	-	26,000	26,000	-
Due from other governments	57,202	-	57,202	2,321
Prepaid expense	19,573	13,639	33,212	838
Inventory	76,192	306,417	382,609	-
Capital Assets-not being depreciated				
Land	-	964,472	964,472	-
Construction in progress	5,144,411	7,181,732	12,326,143	-
Capital Assets				
Property, plant and equipment	13,370,864	25,373,203	38,744,067	2,448,295
Less accumulated depreciation	(3,560,809)	(18,016,870)	(21,577,679)	(403,440)
Other Assets				
Restricted cash and cash equivalents	-	187,315	187,315	-
Notes receivable-non current	161,627	26,000	187,627	-
Notes receivable-Unity Hospital	1,985,000	-	1,985,000	-
TOTAL ASSETS	23,173,388	19,213,455	42,386,843	2,694,721
DEFERRED OUTFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan-NDPERS	319,125	126,095	445,220	-
LIABILITIES				
Accounts payable	117,526	576,239	693,765	78,139
Salaries payable	61,345	24,007	85,352	-
Vacations payable	3,488	23,884	27,372	-
Interest payable	25,446	18,933	44,379	-
Due to other governments	77,078	-	77,078	-
Customer deposits	-	173,420	173,420	-
Noncurrent liabilities				
Compensated absences	48,073	-	48,073	-
Bonds and notes payable-due within one year	234,500	234,000	468,500	-
Bonds and notes payable-due in more than one year	5,577,880	2,619,424	8,197,304	-
Net pension liability	998,092	477,536	1,475,628	-
TOTAL LIABILITIES	7,143,428	4,147,443	11,290,871	78,139
DEFERRED INFLOWS OF RESOURCES				
Cost sharing defined benefit pension plan-NDPERS	91,636	43,841	135,477	-
NET POSITION				
Net investment in capital assets	9,142,086	12,649,113	21,791,199	2,044,855
Restricted-Debt service	325,066	315,728	640,794	-
Restricted-Flood control	569,148	-	569,148	-
Restricted-Economic development	1,928,334	-	1,928,334	-
Restricted-other	347,567	-	347,567	143,921
Unrestricted (deficit)	3,945,248	2,183,425	6,128,673	427,806
TOTAL NET POSITION	\$ 16,257,449	\$ 15,148,266	\$ 31,405,715	\$ 2,616,582

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
Current								
General government	\$ 577,476	\$ 139,117	\$ -	\$ -	\$ (438,359)	\$ -	\$ (438,359)	\$ -
Public safety	964,979	63,176	-	-	(901,803)	-	(901,803)	-
Highways and streets	1,068,562	167,210	-	555,029	(346,323)	-	(346,323)	-
Health and welfare	58,077	-	-	-	(58,077)	-	(58,077)	-
Other	639,049	-	-	-	(639,049)	-	(639,049)	-
Debt service								
Interest	197,038	-	-	-	(197,038)	-	(197,038)	-
Total Governmental Activities	3,505,181	369,503	-	555,029	(2,580,649)	-	(2,580,649)	-
Business-Type Activities								
Electric	5,546,223	5,719,545	-	-	-	173,322	173,322	-
Water	1,018,495	1,173,640	-	2,662,938	-	2,818,083	2,818,083	-
Wastewater	422,122	506,116	-	148,501	-	232,495	232,495	-
Sanitation	370,728	400,065	-	-	-	29,337	29,337	-
Pest Control	150,968	139,207	-	-	-	(11,761)	(11,761)	-
Total Business-Type Activities	7,508,536	7,938,573	-	2,811,439	-	3,241,476	3,241,476	-
Total Primary Government	\$ 11,013,717	\$ 8,308,076	\$ -	\$ 3,366,468	(2,580,649)	3,241,476	660,827	-
Component Units								
Airport Authority	\$ 183,729	\$ -	\$ -	\$ 69,510	-	-	-	(114,219)
Volunteer Fire Department	246,959	-	-	-	-	-	-	(246,959)
Total Component Units	\$ 430,688	\$ -	\$ -	\$ 69,510	-	-	-	(361,178)
General Receipts:								
Taxes					1,835,070	-	1,835,070	26,071
Special assessments					13,302	-	13,302	-
Intergovernmental (not restricted for specific program)								
State and federal					1,526,387	-	1,526,387	-
Interest earnings					-	9,758	9,758	-
Decrease in long term receivable					(50,000)	-	(50,000)	-
Other general revenues					65,861	49,989	115,850	323,293
Gain (loss) on sale of capital assets					1,903	-	1,903	-
Transfers					880,000	(880,000)	-	-
Total General Receipts, Transfers and Sale of Capital Assets					4,272,523	(820,253)	3,452,270	349,364
Changes in Net Position					1,691,874	2,421,223	4,113,097	(11,814)
Net Position, January 1					14,565,575	12,727,042	27,292,617	2,628,396
Net Position, December 31					\$ 16,257,449	\$ 15,148,265	\$ 31,405,714	\$ 2,616,582

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

	General	Special Revenue Grafton Community Development Sales Tax	Debt Service 2012 General Obligation	Debt Service 2015 Refunding Bond Sales Tax	Capital Projects Flood Control	Other Governmental Funds	Total
ASSETS							
Cash and cash equivalents	\$ 628,849	\$ 836,461	\$ 18,803	\$ -	\$ 569,148	\$ 332,265	\$ 2,385,526
Investments	1,306,284	1,004,404	301,050	-	-	50,400	2,662,138
Receivables:							
Taxes	31,509	-	2,983	-	-	929	35,421
Other	-	161,627	-	-	-	-	161,627
Special assessments	12,581	546,959	168,480	-	-	70,117	798,137
Interest	4,596	3,353	941	-	-	272	9,162
Due from other governments	51,012	-	4,722	-	-	1,468	57,202
Prepaid expense	10,321	-	-	-	8,425	-	18,746
Total Assets	<u>\$ 2,045,152</u>	<u>\$ 2,552,804</u>	<u>\$ 496,979</u>	<u>\$ -</u>	<u>\$ 577,573</u>	<u>\$ 455,451</u>	<u>\$ 6,127,959</u>
LIABILITIES							
Accounts payable	\$ 103,438	\$ 433	\$ 450	\$ -	\$ -	\$ 6,577	\$ 110,898
Salaries payable	59,049	-	-	-	-	-	59,049
Due to other governments	-	77,078	-	-	-	-	77,078
Total Liabilities	<u>162,487</u>	<u>77,511</u>	<u>450</u>	<u>-</u>	<u>-</u>	<u>6,577</u>	<u>247,025</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue- property taxes	31,509	-	2,983	-	-	929	35,421
Uncertified special assessments	12,581	546,959	168,480	-	-	70,117	798,137
Total Deferred Inflows of Resources	<u>44,090</u>	<u>546,959</u>	<u>171,463</u>	<u>-</u>	<u>-</u>	<u>71,046</u>	<u>833,558</u>
FUND BALANCE							
Nonspendable	10,321	-	-	-	8,425	-	18,746
Restricted	-	1,928,334	325,066	-	569,148	347,567	3,170,115
Unrestricted							
Committed	-	-	-	-	-	30,261	30,261
Assigned	814,611	-	-	-	-	-	814,611
Unassigned	1,013,643	-	-	-	-	-	1,013,643
Total Fund Balance	<u>1,838,575</u>	<u>1,928,334</u>	<u>325,066</u>	<u>-</u>	<u>577,573</u>	<u>377,828</u>	<u>5,047,376</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 2,045,152</u>	<u>\$ 2,552,804</u>	<u>\$ 496,979</u>	<u>\$ -</u>	<u>\$ 577,573</u>	<u>\$ 455,451</u>	<u>\$ 6,127,959</u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

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

Total fund balance-governmental funds	\$ 5,047,376
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 17,912,548	
Accumulated Depreciation	<u>(3,079,998)</u>	
Net		14,832,550

Net deferred outflows (inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.	217,857
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Some receivables will not be collected soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.
These consist of:

Unavailable revenue-property taxes revenue	35,421
Uncertified special assessments	798,137

Long-term due from Unity Hospital are not available to pay for current period expenditures and therefore are not recorded in the funds.	1,985,000
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The City accounts for its internal maintenance fund as an internal service fund. The assets and liabilities of the internal service fund are included with governmental activities.	169,173
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Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:

Compensated absences	(48,073)	
Accrued interest payable	(25,446)	
Bonds payable	(5,725,000)	
Premium on bonds payable	(38,380)	
Net pension liability	(942,166)	
Notes payable	<u>(49,000)</u>	
		<u>(6,828,065)</u>

Total net position-governmental activities	<u><u>\$ 16,257,449</u></u>
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See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Special</u> <u>Revenue</u> Grafton Community Development		<u>Debt Service</u> 2012 General Obligation	<u>Debt Service</u> 2015 Refunding Bond Sales Tax	<u>Capital Projects</u> Flood Control	Other Governmental Funds	Total
	General	Sales Tax					
REVENUES							
Taxes	\$ 583,360	\$ 928,535	\$ 52,835	\$ -	\$ -	\$ 267,455	\$ 1,832,185
Special assessments	7,014	-	32,938	-	-	59,767	99,719
Licenses and permits	114,991	-	-	-	-	-	114,991
Intergovernmental	662,319	347	2,988	-	859,819	914	1,526,387
Charges for services	24,126	-	-	-	-	-	24,126
Fines and forfeits	63,176	-	-	-	-	-	63,176
Miscellaneous	45,707	(1,330)	1,053	-	4,126	2,085	51,641
Total Revenues	<u>1,500,693</u>	<u>927,552</u>	<u>89,814</u>	<u>-</u>	<u>863,945</u>	<u>330,221</u>	<u>3,712,225</u>
EXPENDITURES							
Current:							
General government	511,663	-	-	-	-	29,010	540,673
Public safety	926,497	-	-	-	-	-	926,497
Highways and streets	452,639	-	-	-	-	-	452,639
Health and welfare	38,642	-	-	-	-	-	38,642
Other	65,323	489,628	-	-	1,666	82,432	639,049
Professional fees	-	-	-	-	2,141,472	-	2,141,472
Capital outlay	443,470	-	-	-	-	70,712	514,182
Debt service:							
Principal retirement	24,500	-	85,000	150,000	-	90,000	349,500
Interest	-	-	7,092	84,445	-	108,635	200,172
Total expenditures	<u>2,462,734</u>	<u>489,628</u>	<u>92,092</u>	<u>234,445</u>	<u>2,143,138</u>	<u>380,789</u>	<u>5,802,826</u>
Revenues Over (Under) Expenditures	(962,041)	437,924	(2,278)	(234,445)	(1,279,193)	(50,568)	(2,090,601)
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of capital assets	1,903	-	-	-	-	-	1,903
Operating transfers in	840,495	-	-	234,445	-	72,095	1,147,035
Operating transfers out	(5,495)	(306,540)	-	-	-	-	(312,035)
Total Other Financing Sources (Uses)	<u>836,903</u>	<u>(306,540)</u>	<u>-</u>	<u>234,445</u>	<u>-</u>	<u>72,095</u>	<u>836,903</u>
Net Change in Fund Balance	(125,138)	131,384	(2,278)	-	(1,279,193)	21,527	(1,253,698)
Fund Balance - January 1	<u>1,963,713</u>	<u>1,796,950</u>	<u>327,344</u>	<u>-</u>	<u>1,856,766</u>	<u>356,301</u>	<u>6,301,074</u>
Fund Balance - December 31	<u>\$ 1,838,575</u>	<u>\$ 1,928,334</u>	<u>\$ 325,066</u>	<u>\$ -</u>	<u>\$ 577,573</u>	<u>\$ 377,828</u>	<u>\$ 5,047,376</u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net change in fund balance- total governmental funds	\$	(1,253,698)
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Governmental funds report capital outlays as expenditures.

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

Capital outlay	\$ 2,795,858	
Depreciation expense	(301,147)	
Excess of capital outlay over depreciation expense		2,494,711
 Infrastructure asset contributed to business type activities		 (297,002)

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

Principal debt payments	349,500	
Bond premium	2,020	
		351,520

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

Net change in unavailable revenue-property taxes revenue		2,885
Net change in uncertified special assessments		468,612

Revenues in the statement of activities that do not provide current resources:		
Decrease in long term receivable		(50,000)

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

1,114

Changes in deferred outflows and inflows of resources related to net pension liability		275,802
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Change in net pension liability		(297,672)
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the government funds. These activities consist of:

Net decrease in accrued vacation		(4,671)
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An internal service fund is used by the City to account for its maintenance operations. The net income of the internal service fund is reported with governmental activities.

273

Net change in net assets of governmental activities	\$	1,691,874
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See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
AS OF DECEMBER 31, 2016

	Business-type Activities Enterprise Funds						Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
ASSETS							
Current assets							
Cash and cash equivalents	\$ 78,137	\$ 241,853	\$ 118,939	\$ 29,070	\$ 18,837	\$ 486,836	\$ 28,944
Restricted cash and cash equivalents	-	96,496	31,917	-	-	128,413	-
Investments	200,854	602,000	50,000	200,000	25,200	1,078,054	-
Receivables:							
Other	-	385,263	-	-	-	385,263	-
Accounts (net of uncollectibles)	803,187	140,370	61,179	47,570	16,711	1,069,017	-
Interest	1,443	1,527	86	772	136	3,964	-
Notes receivable - current portion	26,000	-	-	-	-	26,000	-
Prepaid expenses	9,795	2,944	837	2	61	13,639	827
Inventory	213,460	86,526	6,431	-	-	306,417	76,192
Total current assets	1,332,876	1,556,979	269,389	277,414	60,945	3,497,603	105,963
Capital assets-not being depreciated							
Land	677,145	40,810	195,993	50,524	-	964,472	-
Construction in progress	38,839	6,505,655	637,238	-	-	7,181,732	-
Capital assets							
Buildings/Improvements	1,257,766	721,078	901,780	13,900	-	2,894,524	507,838
Transmission system	6,414,538	10,091,950	4,875,919	-	-	21,382,407	38,979
Machinery and equipment	631,072	188,140	238,253	2,540	36,267	1,096,272	55,910
Total capital assets	9,019,360	17,547,633	6,849,183	66,964	36,267	33,519,407	602,727
Less accumulated depreciation	(6,210,297)	(7,544,253)	(4,219,215)	(12,210)	(30,895)	(18,016,870)	(480,811)
Net capital assets	2,809,063	10,003,380	2,629,968	54,754	5,372	15,502,537	121,916
Other assets							
Restricted cash and cash equivalents	-	174,835	12,480	-	-	187,315	-
Notes receivable - non-current portion	26,000	-	-	-	-	26,000	-
Total other assets	26,000	174,835	12,480	-	-	213,315	-
TOTAL ASSETS	4,167,939	11,735,194	2,911,837	332,168	66,317	19,213,455	227,879
DEFERRED OUTFLOWS OF RESOURCES							
Cost sharing defined benefit pension plan-NDPERS	56,188	50,848	19,059	-	-	126,095	14,767
LIABILITIES							
Current liabilities							
Accounts payable	462,451	104,618	8,993	-	177	576,239	6,628
Salaries payable	10,497	8,722	4,788	-	-	24,007	2,296
Vacations payable	10,158	8,953	4,773	-	-	23,884	3,488
Interest payable	-	15,503	3,430	-	-	18,933	-
Bonds payable-current portion	-	203,000	31,000	-	-	234,000	-
Customer deposits	86,490	86,930	-	-	-	173,420	-
Total current liabilities	569,596	427,726	52,984	-	177	1,050,483	12,412
Long-term liabilities							
Non-current portion	-	2,168,889	450,535	-	-	2,619,424	-
Net pension liability	212,790	192,566	72,180	-	-	477,536	55,926
Total non-current liabilities	212,790	2,361,455	522,715	-	-	3,096,960	55,926
TOTAL LIABILITIES	782,386	2,789,181	575,699	-	177	4,147,443	68,338
DEFERRED INFLOWS OF RESOURCES							
Cost sharing defined benefit pension plan-NDPERS	19,536	17,679	6,626	-	-	43,841	5,135
NET POSITION							
Net investment in capital assets	2,809,063	7,631,491	2,148,433	54,754	5,372	12,649,113	121,916
Restricted for bond covenants	-	271,331	44,397	-	-	315,728	-
Unrestricted	613,142	1,076,360	155,741	277,414	60,768	2,183,425	47,257
TOTAL NET POSITION	\$ 3,422,205	\$ 8,979,182	\$ 2,348,571	\$ 332,168	\$ 66,140	\$ 15,148,266	\$ 169,173

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities						Governmental
	Enterprise Funds						Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
Operating Revenues:							
Sales - Net of Discounts	\$ 5,602,479	\$ 1,169,628	\$ 505,721	\$ 400,065	\$ 138,770	\$ 7,816,663	\$ 167,210
Operating Expenses:							
Cost of goods sold	4,334,443	-	-	-	-	4,334,443	86,947
Utilities and phone	7,909	81,538	70,791	449	-	160,687	7,545
Materials and supplies	5,079	7,549	3,578	-	102	16,308	2,879
Repairs and maintenance	19,120	5,507	2,445	40	-	27,112	1,702
Gas, fuel and oil	3,042	1,676	1,361	-	246	6,325	345
Insurance	77,913	63,823	36,325	4	202	178,267	25,632
Uniforms	4,789	329	-	-	-	5,118	5
Contracted services	16,505	1,326	5,716	337,836	112,962	474,345	622
Technology	-	333	394	-	-	727	-
Salaries	231,555	221,388	82,364	-	-	535,307	58,448
Payroll taxes	17,100	16,138	6,156	-	-	39,394	4,287
Retirement	58,750	39,496	10,805	-	-	109,051	10,023
Rent	-	-	6,256	-	-	6,256	-
Miscellaneous	47,497	21,406	2,826	3,046	228	75,003	10,830
Depreciation	201,449	227,932	128,943	735	1,791	560,850	14,002
General equipment	21,461	1,621	3,007	-	14	26,103	2,540
Operating expenses	278,424	140,592	44,582	25,896	-	489,494	-
Distribution system	35,466	21,403	7,221	-	80	64,170	-
Collection fees	1,977	-	-	2,722	-	4,699	-
Donated and internal use	155,404	4,482	-	-	-	159,886	-
Chemicals	-	116,255	480	-	35,118	151,853	-
Travel and training	1,867	846	615	-	225	3,553	350
Structures and improvements	1,128	28	-	-	-	1,156	-
Total Operating Expenses	5,520,878	973,668	413,865	370,728	150,968	7,430,107	226,157
Operating Income (Loss)	81,601	195,960	91,856	29,337	(12,198)	386,556	(58,947)
Non-Operating Revenues (Expenses):							
Materials sold	27,646	3,012	295	-	437	31,390	150
Interest earnings	4,779	3,184	333	1,260	202	9,758	-
Minnkota lease	88,441	-	-	-	-	88,441	-
Rent	979	1,000	100	-	-	2,079	5,000
Miscellaneous	14,315	16,826	12,652	673	5,523	49,989	9,070
Grant reimbursement	-	2,514,437	-	-	-	2,514,437	-
Cost of materials sold	(22,095)	(3,012)	(295)	-	-	(25,402)	-
Incentives	(3,250)	-	-	-	-	(3,250)	-
Interest expense	-	(41,815)	(7,962)	-	-	(49,777)	-
Total Non-Operating Revenues (Expense)	110,815	2,493,632	5,123	1,933	6,162	2,617,665	14,220
Income (Loss) Before Operating							
Transfers and contributions	192,416	2,689,592	96,979	31,270	(6,036)	3,004,221	(44,727)
Capital Contributions	-	148,501	148,501	-	-	297,002	-
Operating Transfers In	-	-	-	-	-	-	45,000
Operating Transfers (Out)	(771,500)	(81,000)	-	(27,500)	-	(880,000)	-
Net Income (Loss)	(579,084)	2,757,093	245,480	3,770	(6,036)	2,421,223	273
Net Position, January 1	4,001,289	6,222,089	2,103,091	328,398	72,176	12,727,043	168,900
Net Position, December 31	\$ 3,422,205	\$ 8,979,182	\$ 2,348,571	\$ 332,168	\$ 66,140	\$ 15,148,266	\$ 169,173

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities Enterprise Funds						Governmental Activities Internal Service Funds
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from customers	\$ 5,454,325	\$ 1,142,892	\$ 492,103	\$ 391,884	\$ 131,929	\$ 7,613,133	\$ 167,210
Cash payments to suppliers	(5,018,257)	(439,042)	(201,352)	(369,993)	(149,177)	(6,177,821)	(149,526)
Cash paid to employees	(193,965)	(201,625)	(78,142)	-	-	(473,732)	(55,131)
Net cash flow from (to) operating activities	242,103	502,225	212,609	21,891	(17,248)	961,580	(37,447)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Miscellaneous revenues (expenses)	106,036	17,826	12,752	673	5,960	143,247	14,220
Transfers to (from) other funds	(771,500)	(81,000)	-	(27,500)	-	(880,000)	45,000
Net cash flow from (to) non-capital financing activities	(665,464)	(63,174)	12,752	(26,827)	5,960	(736,753)	59,220
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchases of property and equipment	(177,051)	(4,137,802)	(609,911)	(800)	-	(4,925,564)	-
Capital contributions	-	148,501	148,501	-	-	297,002	-
Proceeds from capital grant	-	2,835,377	-	-	-	2,835,377	-
Proceeds from long term borrowing	-	975,968	311,373	-	-	1,287,341	-
Principal paid on debt	-	(197,000)	(31,000)	-	-	(228,000)	-
Interest paid on debt	-	(36,080)	(4,982)	-	-	(41,062)	-
Net cash flow from (to) capital and related financing activities	(177,051)	(411,036)	(186,019)	(800)	-	(774,906)	-
CASH FLOWS FROM INVESTING ACTIVITIES							
Collections of notes receivable	26,000	-	-	-	-	26,000	-
Interest income	5,596	3,959	270	1,041	201	11,067	-
(Purchase) Sale of certificates of deposits	602,116	(99,855)	275	25,685	(200)	528,021	-
Net cash flow from (to) investing activities	633,712	(95,896)	545	26,726	1	565,088	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	33,300	(67,881)	39,887	20,990	(11,287)	15,009	21,773
CASH AND CASH EQUIVALENTS, JANUARY 1, 2016	44,837	581,065	123,449	8,080	30,124	787,555	7,171
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2016	\$ 78,137	\$ 513,184	\$ 163,336	\$ 29,070	\$ 18,837	\$ 802,564	\$ 28,944
Cash and cash equivalents are comprised of the following:							
Cash and cash equivalents	\$ 78,137	\$ 241,853	\$ 118,939	\$ 29,070	\$ 18,837	\$ 486,836	\$ 28,944
Restricted Cash and cash equivalents	-	96,496	31,917	-	-	128,413	-
Restricted Cash and cash equivalents	-	174,835	12,480	-	-	187,315	-
Total cash and cash equivalents on the Statement of Net Position	\$ 78,137	\$ 513,184	\$ 163,336	\$ 29,070	\$ 18,837	\$ 802,564	\$ 28,944
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES							
Operating Income	\$ 81,601	\$ 195,960	\$ 91,856	\$ 29,337	\$ (12,198)	\$ 386,556	\$ (58,947)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	201,449	227,932	128,943	735	1,791	560,850	14,002
Changes in assets and liabilities							
(Increase)/Decrease in Accounts receivable	(148,154)	(26,736)	(13,618)	(8,181)	(6,841)	(203,530)	-
(Increase)/Decrease in Inventory	8,164	3,279	81	-	-	11,524	1,060
(Increase)/Decrease in Prepaid expenses	(503)	(149)	(65)	-	(6)	(723)	(120)
(Increase)/Decrease in Deferred outflows of resources	(30,499)	(25,133)	(8,699)	-	-	(64,331)	(7,035)
Increase/(Decrease) in Accounts payable	61,751	81,666	1,190	-	6	144,613	3,241
Increase/(Decrease) in Accrued Salaries Payable	3,819	2,872	1,890	-	-	8,581	(144)
Increase/(Decrease) in Customer deposits	205	510	-	-	-	715	-
Increase/(Decrease) in Deferred inflows of resources	(17,897)	(19,791)	(8,470)	-	-	(46,158)	(6,128)
Increase/(Decrease) in Net pension liability	82,167	61,815	19,501	-	-	163,483	16,624
Net cash provided (used) by operating activities	\$ 242,103	\$ 502,225	\$ 212,609	\$ 21,891	\$ (17,248)	\$ 961,580	\$ (37,447)

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
AS OF DECEMBER 31, 2016

	<u>Agency Funds</u>			
	<u>Recreation</u>	<u>Library</u>	<u>Christian Unity Hospital</u>	<u>Total</u>
ASSETS				
Investments	\$ -	\$ -	\$ 161,175	\$ 161,175
Taxes receivable	1,123	1,755	-	2,878
Interest receivable	-	-	697	697
Due from other governments	1,698	2,828	-	4,526
TOTAL ASSETS	<u><u>\$ 2,821</u></u>	<u><u>\$ 4,583</u></u>	<u><u>\$ 161,872</u></u>	<u><u>\$ 169,276</u></u>
LIABILITIES				
Due to other governments	\$ 1,698	\$ 2,828	\$ 161,872	\$ 166,398
Unearned revenues	1,123	1,755	-	2,878
TOTAL LIABILITIES	<u><u>\$ 2,821</u></u>	<u><u>\$ 4,583</u></u>	<u><u>\$ 161,872</u></u>	<u><u>\$ 169,276</u></u>

See Notes to the Financial Statements

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Airport Authority

The Airport Authority oversees the operation and maintenance of the airport. Separate financial statements have not been issued by the Airport Authority.

Volunteer Fire Department

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

Basis of Presentation

Government-Wide Financial Statement

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Fund Financial Statements

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

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

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

Governmental Funds

General Fund

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

Special Revenue Fund

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

Debt Service Fund

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

Capital Projects

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

Proprietary Funds

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

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

Fiduciary Funds

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

Agency Funds

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

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Cash and Investments

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

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

Revenues

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

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

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

Revenues-Exchange and Non-Exchange Transactions

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

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

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

Property Taxes

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Inventories and Prepaid Expenses

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

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

Capital Assets

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

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

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

Compensated Absences

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Long-Term Debt

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

Net Position

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

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

Fund Balances

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

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

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

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

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

Minimum Fund Balance Policy

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

Inter-fund Balances

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

Inter-fund Activity

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

Encumbrances

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

Estimates

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Significant Group Concentrations of Credit Risk

As of December 31, 2016, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security. The City does require a utility deposit for the utility customers.

Unearned Revenue

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

Pensions

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the items, *unavailable property taxes* and *uncertified special assessments* are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS pension plans. See Note 5 for more details.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

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

Interest Rate Risk

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

Custodial Risk

State statutes require that market value of collateral pledged to secure deposits not covered by insurance must equal 110% of the deposits. The City's cash and investments are held by the designated depository.

Credit Risk

State statutes authorize local governments to invest in:

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

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

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

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended December 31, 2016 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities Capital Assets:				
Buildings and improvements	\$ 1,088,057	\$ 83,783	\$ 8,970	\$ 1,162,870
Vehicles and equipment	3,088,527	359,686	114,430	3,333,783
Infrastructure	9,010,579	160,634	297,002	8,874,211
Construction in progress	2,952,656	2,329,796	138,041	5,144,411
Total	<u>16,139,819</u>	<u>2,933,899</u>	<u>558,443</u>	<u>18,515,275</u>
Governmental Activities Accumulated Depreciation:				
Buildings and improvements	681,239	27,953	8,970	700,222
Vehicles and equipment	1,771,272	107,435	114,430	1,764,277
Infrastructure	916,549	179,761	-	1,096,310
Total	<u>3,369,060</u>	<u>315,149</u>	<u>123,400</u>	<u>3,560,809</u>
Net Capital Assets - Governmental Activities	<u>\$ 12,770,759</u>	<u>\$ 2,618,750</u>	<u>\$ 435,043</u>	<u>\$ 14,954,466</u>

Changes in capital assets for business-type activities for the year ended December 31, 2016 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities Capital Assets:				
Land	\$ 964,472	\$ -	\$ -	\$ 964,472
Buildings and improvements	2,612,172	385,203	102,851	2,894,524
Transmission system	21,490,841	144,431	252,865	21,382,407
Vehicles and equipment	1,337,326	41,820	282,874	1,096,272
Construction in progress	3,510,723	3,975,714	304,905	7,181,532
Total	<u>29,915,534</u>	<u>4,547,168</u>	<u>943,495</u>	<u>33,519,207</u>
Business-Type Activities Accumulated Depreciation:				
Buildings and improvements	2,196,526	21,806	102,851	2,115,481
Transmission system	14,881,430	471,198	252,865	15,099,763
Vehicles and equipment	1,016,656	67,844	282,874	801,626
Total	<u>18,094,612</u>	<u>560,848</u>	<u>638,590</u>	<u>18,016,870</u>
Net Capital Assets Business-Type Activities	<u>\$ 11,820,922</u>	<u>\$ 3,986,320</u>	<u>\$ 304,905</u>	<u>\$ 15,502,337</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Changes in capital assets for component units for the year ended December 31, 2016 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Component Units Capital Assets:				
Buildings and improvements	\$ 2,404,072	\$ 15,165	\$ -	\$ 2,419,237
Construction in process	-	23,208	-	23,208
Vehicles and equipment	5,850	-	-	5,850
Total	<u>2,409,922</u>	<u>38,373</u>	<u>-</u>	<u>2,448,295</u>
Component Units Accumulated Depreciation:				
Buildings and improvements	304,313	93,277	-	397,590
Vehicles and equipment	5,850	-	-	5,850
Total	<u>310,163</u>	<u>93,277</u>	<u>-</u>	<u>403,440</u>
Net Capital Assets - Component Units	<u>\$ 2,099,759</u>	<u>\$ (54,904)</u>	<u>\$ -</u>	<u>\$ 2,044,855</u>

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

Governmental Activities	
General Government	\$ 10,262
Public Safety	52,484
Highways and Streets	232,968
Component Units	93,277
Health and Recreation	<u>19,435</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 408,426</u>
Business-Type Activities	
Electric	\$ 201,449
Water	227,932
Wastewater	128,943
Sanitation	735
Pest Control	<u>1,791</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 560,850</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 4 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in governmental activities long-term debt by individual issue for the year ended December 31, 2016:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>New Issues</u>	<u>Retired</u>	<u>Other</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Refunding Improvement Bonds:							
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,270,000	\$ -	\$ (150,000)	\$ -	\$ 3,120,000	\$ 25,000
Bond Premium		40,400	-	-	(2,020)	38,380	
\$405,000 of 2008B	3.15% - 3.7%	100,000	-	(40,000)	-	60,000	40,000
General Obligation Bonds 2012	.4%-1.4%	645,000	-	(85,000)	-	560,000	90,000
Sales Tax Revenue Bonds							
\$2,350,000 2008A	3.5% - 5.5%	2,035,000	-	(50,000)	-	1,985,000	55,000
Compensated Absences		43,403	-	-	4,670	48,073	-
Other Debt:							
Due to Electric -General Fund Fire	0.00%	73,500	-	(24,500)	-	49,000	24,500
Net Pension Liability		683,796	-	-	314,296	998,092	-
		<u>\$ 6,891,099</u>	<u>\$ -</u>	<u>\$ (349,500)</u>	<u>\$ 316,946</u>	<u>\$ 6,858,545</u>	<u>\$ 234,500</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

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

Governmental Activities

<u>\$405,000 Refunding Improvement</u>				<u>City of Grafton - Electric Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 40,000	\$ 1,480	\$ 41,480	\$ 24,500	\$ -	\$ 24,500
2018	20,000	370	20,370	24,500	-	24,500
	<u>\$ 60,000</u>	<u>\$ 1,850</u>	<u>\$ 61,850</u>	<u>\$ 49,000</u>	<u>\$ -</u>	<u>\$ 49,000</u>

<u>\$2,350,000 Sales Tax Revenue Bonds</u>				<u>\$890,000 General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 55,000	\$ 102,675	\$ 157,675	\$ 90,000	\$ 6,005	\$ 96,005
2018	55,000	100,338	155,338	90,000	5,240	95,240
2019	60,000	97,750	157,750	90,000	4,340	94,340
2020	60,000	95,050	155,050	95,000	3,276	98,276
2021	65,000	93,085	158,085	95,000	1,365	96,365
2022-2026	360,000	410,000	770,000	100,000	700	100,700
2027-2031	460,000	303,715	763,715	-	-	-
2032-2036	590,000	161,700	751,700	-	-	-
2037-2041	280,000	15,675	295,675	-	-	-
	<u>\$ 1,985,000</u>	<u>\$ 1,379,988</u>	<u>\$ 3,364,988</u>	<u>\$ 560,000</u>	<u>\$ 20,926</u>	<u>\$ 580,926</u>

<u>\$3,500,000 Refunding Improvement 2015</u>				<u>Combined Debt Payments Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,000	\$ 82,120	\$ 107,120	\$ 234,500	\$ 192,280	\$ 426,780
2018	25,000	81,808	106,808	214,500	187,756	402,256
2019	160,000	81,495	241,495	310,000	183,585	493,585
2020	160,000	79,495	239,495	315,000	177,821	492,821
2021	165,000	76,295	241,295	325,000	170,745	495,745
2022-2026	885,000	328,125	1,213,125	1,345,000	738,825	2,083,825
2027-2031	1,010,000	198,700	1,208,700	1,470,000	504,265	1,974,265
2032-2036	690,000	43,180	733,180	1,280,000	204,880	1,484,880
2037-2041	-	-	-	280,000	15,675	295,675
	<u>\$ 3,120,000</u>	<u>\$ 971,218</u>	<u>\$ 4,091,218</u>	<u>\$ 5,774,000</u>	<u>\$ 2,375,832</u>	<u>\$ 8,149,832</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

The following is a summary of changes in business-type activities long-term debt by individual issue for the year ended December 31, 2016:

BUSINESS-TYPE ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year
<u>Water</u>							
ND Municipal Bond Bank Water Revenue Bonds	2.50%	\$ 115,000	\$ -	\$ (15,000)	\$ -	\$ 100,000	\$ 15,000
ND Municipal Bond Bank	2.50%	542,000	-	(62,000)	-	480,000	63,000
ND Municipal Bond Bank	2.00%	935,921	975,968	(120,000)	-	1,791,889	125,000
Net Pension Liability		130,751	-	-	61,815	192,566	-
		<u>\$ 1,723,672</u>	<u>\$ 975,968</u>	<u>\$ (197,000)</u>	<u>\$ 61,815</u>	<u>\$ 2,564,455</u>	<u>\$ 203,000</u>
<u>Wastewater</u>							
ND Public Finance-Clean Water Loan	2.00%	\$ 51,162	\$ 311,373	\$ (1,000)	\$ -	\$ 361,535	\$ 1,000
ND Public Finance-Sewer Revenue Bonds	2.50%	150,000	-	(30,000)	-	120,000	30,000
Net Pension Liability		52,679	-	-	19,501	72,180	-
		<u>\$ 253,841</u>	<u>\$ 311,373</u>	<u>\$ (31,000)</u>	<u>\$ 19,501</u>	<u>\$ 553,715</u>	<u>\$ 31,000</u>
<u>Electric</u>							
Net Pension Liability		<u>\$ 130,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,167</u>	<u>\$ 212,790</u>	<u>\$ -</u>

The ND Municipal Bond Bank loan in the amount of \$1,791,889 represents advances on a \$4,000,000 loan to finance a water improvement project.

The ND Public Finance loan in the amount of \$361,535 represents advances on a \$1,000,000 loan to finance a lift station renovation project.

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

	\$285,616 North Dakota Municipal Bond Bank			\$3,000,000 North Dakota Municipal Bond Bank		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 15,000	\$ 2,500	\$ 17,500	\$ 125,000	\$ 55,300	\$ 180,300
2018	15,000	2,125	17,125	125,000	52,800	177,800
2019	15,000	1,750	16,750	130,000	50,300	180,300
2020	15,000	1,375	16,375	135,000	47,700	182,700
2021	20,000	1,000	21,000	135,000	45,000	180,000
2022-2026	20,000	500	20,500	735,000	182,800	917,800
2027-2031	-	-	-	830,000	105,600	935,600
2032-2036	-	-	-	550,000	18,400	568,400
	<u>\$ 100,000</u>	<u>\$ 9,250</u>	<u>\$ 109,250</u>	<u>\$ 2,765,000</u>	<u>\$ 557,900</u>	<u>\$ 3,322,900</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

\$1,150,000 North Dakota Municipal Bond Bank				Combined Debt Payments Business-Type Activities-Water		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 63,000	\$ 12,000	\$ 75,000	\$ 203,000	\$ 69,800	\$ 272,800
2018	65,000	10,425	75,425	205,000	65,350	270,350
2019	67,000	8,800	75,800	212,000	60,850	272,850
2020	68,000	7,125	75,125	218,000	56,200	274,200
2021	70,000	5,425	75,425	225,000	51,425	276,425
2022-2026	147,000	5,550	152,550	902,000	188,850	1,090,850
2027-2031	-	-	-	830,000	105,600	935,600
2032-2036	-	-	-	550,000	18,400	568,400
	<u>\$ 480,000</u>	<u>\$ 49,325</u>	<u>\$ 529,325</u>	<u>\$ 3,345,000</u>	<u>\$ 616,475</u>	<u>\$ 3,961,475</u>

\$750,000 North Dakota Public Finance				\$150,000 North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 1,000	\$ 14,200	\$ 15,200	\$ 30,000	\$ 3,000	\$ 33,000
2018	1,000	13,300	14,300	30,000	2,250	32,250
2019	1,000	12,400	13,400	30,000	1,500	31,500
2020	1,000	11,500	12,500	30,000	750	30,750
2021	1,000	10,600	11,600	-	-	-
2022-2026	5,000	38,500	43,500	-	-	-
2027-2031	700,000	11,700	711,700	-	-	-
	<u>\$ 710,000</u>	<u>\$ 112,200</u>	<u>\$ 822,200</u>	<u>\$ 120,000</u>	<u>\$ 7,500</u>	<u>\$ 127,500</u>

Combined Debt Payments Business-Type Activities-Sewer		
	Principal	Interest
2017	\$ 31,000	\$ 17,200
2018	31,000	15,550
2019	31,000	13,900
2020	31,000	12,250
2021	1,000	10,600
2022-2026	5,000	38,500
2027-2031	700,000	11,700
	<u>\$ 830,000</u>	<u>\$ 119,700</u>

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 5 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

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

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the City reported a liability of \$1,475,628 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the City's proportion was 0.151409 percent which was an increase of 0.004663 percent from its proportion measured at June 30, 2015.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

For the year ended December 31, 2016, the City recognized pension expense of \$188,927 at December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 22,167	\$ 13,663
Changes in actuarial assumptions	136,034	73,309
Difference between projected and actual investment earnings	205,871	-
Changes in proportion	25,574	48,505
Contributions paid to NDPERS subsequent to the measurement date	55,574	-
Total	<u>\$ 445,220</u>	<u>\$ 135,477</u>

\$55,574 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017.

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

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ 43,011
2018	43,011
2019	87,921
2020	54,129
2021	26,097
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.52%
International Fixed Inc.	5.00%	0.45%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease in Discount Rate 7.00%	Discount Rate 8.00%	1% Increase in Discount Rate 9.00%
City's proportionate share of the NDPERS net pension liability:	\$ 2,093,150	\$ 1,475,628	\$ 955,334

Pension Plan Fiduciary Net Position

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

NOTE 6 - JOINT VENTURE

The City has entered into an agreement for financial participation with Grafton Park and Recreation. The Board of Directors of Park and Recreation is a separately elected Board and the District is not included in the financial statements of the City as a component. The activity in which the City is involved is reflected in an agency fund.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance and vehicle and inland marine insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund,

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

and workers' compensation is provided by the North Dakota Workers' Compensation Bureau. Other risks are covered by private insurance.

Commitments

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

The City has entered into a construction contract for the water plant improvement project. The amount of the contract is \$4,992,408 and as of December 31, 2016, \$4,676,272 of this contract was complete.

The City has entered into contracts with the engineer for the flood control project. The maximum amount of the contracts are \$4,936,170 and as of December 31, 2016, \$4,906,329 has been completed.

NOTE 8 - SCHEDULE OF TRANSFERS

Transfers to General Fund	
Electric	\$ 691,500
Water	81,000
Sanitation	<u>27,500</u>
	<u>\$ 800,000</u>
Transfers from General Fund	
Special Revenue Fund-Armory	<u>\$ 5,495</u>
	<u>\$ 5,495</u>
Transfer (to) from Special Revenue -Sales Tax	
Debt Service - 2015 Refunding	\$ 234,445
Debt Service - 2008-A	1,212
Hospital	(1,212)
Development Sales Tax	(306,540)
Capital Projects - Lessard Ave	<u>72,095</u>
	<u>\$ -</u>
Transfer From Electric Fund	
Maintenance	\$ 45,000
Recreation	<u>35,000</u>
	<u>\$ 80,000</u>

The Council has adopted a policy to transfer surplus utility funds to the general fund each year to meet the annual budget. The other transfers to and from various funds were to fund the local share of various projects.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 9 - UNITY HOSPITAL PROJECT

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

NOTE 10 - FUND BALANCES

Fund balance is categorized as follows:

	General	2012 General Obligation	Grafton Community Development Sales Tax	2015 Refunding Bonds	Flood Control	Other Governmental Funds	Total
Fund Balances							
Nonspendable							
Prepays	\$ 10,321	\$ -	\$ -	\$ -	\$ 8,425	\$ -	\$ 18,746
Total nonspendable	10,321	-	-	-	8,425	-	18,746
Restricted							
Debt service	-	325,066	-	-	-	220,913	545,979
Flood control	-	-	-	-	569,148	-	569,148
Economic development	-	-	1,928,334	-	-	-	1,928,334
Housing rehabilitation	-	-	-	-	-	1,019	1,019
Cemetery	-	-	-	-	-	54,272	54,272
Lodging	-	-	-	-	-	46,103	46,103
Annual special assessment	-	-	-	-	-	25,092	25,092
Culture and recreation	-	-	-	-	-	168	168
Total restricted	-	325,066	1,928,334	-	569,148	347,567	3,170,115
Committed							
Street resurfacing	-	-	-	-	-	30,261	30,261
Total committed	-	-	-	-	-	30,261	30,261
Assigned							
Social Security	104,085						104,085
Advertising	19,372						19,372
Planning and zoning	41,383						41,383
Armory	74,524						74,524
Building improvements	40,000						40,000
Streets	468,236						468,236
Public safety	30,307						30,307
Health and welfare	6,060						6,060
General government	30,644	-	-	-	-	-	30,644
Total assigned	814,611	-	-	-	-	-	814,611
Unassigned	1,013,643	-	-	-	-	-	1,013,643
Total Fund Balance	\$ 1,838,575	\$ 325,066	\$ 1,928,334	\$ -	\$ 577,573	\$ 377,828	\$ 5,047,376

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 11 - NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several new statements, some of which have not been implemented by the City.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

GASB Statement No. 80, *Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

NOTE 12 - SUBSEQUENT EVENTS

The City issued bonds in the amount of \$3,375,000 in 2017 to fund costs incurred for the flood control project.

CITY OF GRAFTON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 613,465	\$ 613,465	\$ 583,360	\$ (30,105)
Special assessments	-	-	7,014	7,014
Licenses and permits	130,550	130,550	114,991	(15,559)
Intergovernmental	810,780	814,053	662,319	(151,734)
Charges for services	35,000	35,000	24,126	(10,874)
Fines and forfeits	48,700	48,700	63,176	14,476
Miscellaneous	38,215	38,215	45,707	7,492
	<u>1,676,710</u>	<u>1,679,983</u>	<u>1,500,693</u>	<u>(179,290)</u>
TOTAL REVENUES				
	<u>1,676,710</u>	<u>1,679,983</u>	<u>1,500,693</u>	<u>(179,290)</u>
EXPENDITURES				
General government	505,380	575,823	511,663	64,160
Public safety	1,059,960	1,059,960	926,497	133,463
Highways and streets	586,340	586,340	452,639	133,701
Health and welfare	40,570	40,570	38,642	1,928
Other	61,245	61,245	65,323	(4,078)
Capital outlay	249,900	485,847	443,470	42,377
Debt service-principal	24,500	24,500	24,500	-
	<u>2,527,895</u>	<u>2,834,285</u>	<u>2,462,734</u>	<u>371,551</u>
TOTAL EXPENDITURES				
	<u>2,527,895</u>	<u>2,834,285</u>	<u>2,462,734</u>	<u>371,551</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(851,185)	(1,154,302)	(962,041)	192,261
OTHER SOURCES (USES)				
Proceeds from sale of capital assets	-	-	1,903	1,903
Transfer from other funds	835,000	835,000	840,495	5,495
Transfer to other funds	-	-	(5,495)	(5,495)
	<u>835,000</u>	<u>835,000</u>	<u>836,903</u>	<u>1,903</u>
TOTAL OTHER SOURCES (USES)				
	<u>835,000</u>	<u>835,000</u>	<u>836,903</u>	<u>1,903</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (16,185)</u>	<u>\$ (319,302)</u>	<u>(125,138)</u>	<u>\$ 194,164</u>
FUND BALANCE - JANUARY 1			<u>1,963,713</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 1,838,575</u>	

See Note to the Budgetary Comparison Schedule

CITY OF GRAFTON, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 940,000	\$ 940,000	\$ 928,535	\$ (11,465)
Miscellaneous	77,875	77,875	(1,330)	(79,205)
TOTAL REVENUES	<u>1,017,875</u>	<u>1,017,875</u>	<u>927,205</u>	<u>(90,670)</u>
EXPENDITURES				
Other	<u>593,300</u>	<u>784,187</u>	<u>489,628</u>	<u>294,559</u>
TOTAL EXPENDITURES	<u>593,300</u>	<u>784,187</u>	<u>489,628</u>	<u>294,559</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	424,575	233,688	437,577	203,889
OTHER SOURCES (USES)				
Transfer to other funds	<u>(234,500)</u>	<u>(234,500)</u>	<u>(306,540)</u>	<u>(72,040)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 190,075</u>	<u>\$ (812)</u>	131,037	<u>\$ 131,849</u>
FUND BALANCE - JANUARY 1			<u>1,796,950</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 1,927,987</u>	

See Note to the Budgetary Comparison Schedule

CITY OF GRAFTON, NORTH DAKOTA
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
DECEMBER 31, 2016

NOTE 1 BUDGETS

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

The preliminary budget shall set forth specifically:

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

After the preliminary budget has been prepared the city auditor shall give notice that the preliminary budget is on file in the office of the auditor and that such budget may be examined by anyone requesting to do so. The governing body shall meet for the purpose of adopting the final budget and making the annual tax levy no later than October 1.

After completing the final budget on or before October 1, the governing body shall proceed to make the annual tax levy. Immediately after the completion of the final budget and the adoption of the tax levy by the governing body, the auditor shall send to the county auditor two certified copies of the final budget and levy no later than October 10.

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

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

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

For the Fiscal Year Ended December 31	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.151409%	\$ 1,475,628	\$ 1,525,846	96.71%	70.46%
2015	0.146746%	997,849	1,307,327	76.33%	77.15%

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

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

See Note to the Required Supplementary Information

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

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 110,469	\$ 110,469	\$ -	\$ 1,525,846	7.24%
2015	99,302	98,367	935	1,307,327	7.60%

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

See Note to the Required Supplementary Information

CITY OF GRAFTON, NORTH DAKOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

NOTE 1 CHANGES OF ASSUMPTIONS

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Non major Governmental Funds</u>
Assets				
Cash	\$ 131,763	\$ 170,241	\$ 30,261	\$ 332,265
Investments	-	50,400	-	50,400
Taxes receivable	929	-	-	929
Special assessments receivable	-	70,117	-	70,117
Interest receivable	-	272	-	272
Due from other governments	<u>1,468</u>	<u>-</u>	<u>-</u>	<u>1,468</u>
Total Assets	<u>\$ 134,160</u>	<u>\$ 291,030</u>	<u>\$ 30,261</u>	<u>\$ 455,451</u>
Liabilities				
Accounts payable	<u>\$ 6,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,577</u>
Total liabilities	<u>6,577</u>	<u>-</u>	<u>-</u>	<u>6,577</u>
Deferred Inflows of Resources				
Unavailable revenue- property taxes	929	-	-	929
Uncertified special assessments	<u>-</u>	<u>70,117</u>	<u>-</u>	<u>70,117</u>
Total deferred inflows of resources	<u>929</u>	<u>70,117</u>	<u>-</u>	<u>71,046</u>
Fund Balance				
Restricted	126,654	220,913	-	347,567
Unrestricted				
Committed	<u>-</u>	<u>-</u>	<u>30,261</u>	<u>30,261</u>
Total fund balance	<u>126,654</u>	<u>220,913</u>	<u>30,261</u>	<u>377,828</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 134,160</u>	<u>\$ 291,030</u>	<u>\$ 30,261</u>	<u>\$ 455,451</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Non major Governmental Funds
Revenues				
Taxes	\$ 35,321	\$ 232,134	\$ -	\$ 267,455
Special assessments	-	59,767	-	59,767
Intergovernmental	914	-	-	914
Other	462	1,623	-	2,085
Total revenues	<u>36,697</u>	<u>293,524</u>	<u>-</u>	<u>330,221</u>
Expenditures				
Current				
General government	29,010	-	-	29,010
Other	-	74,522	7,910	82,432
Capital outlay	6,527	-	64,185	70,712
Debt Service:				
Principal	-	90,000	-	90,000
Interest	-	108,635	-	108,635
Total expenditures	<u>35,537</u>	<u>273,157</u>	<u>72,095</u>	<u>380,789</u>
Excess Revenues Over (Under) Expenditures	1,160	20,367	(72,095)	(50,568)
Other Financing Sources (Uses)				
Operating transfers in	-	-	72,095	72,095
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>72,095</u>	<u>72,095</u>
Excess Revenues Over (Under) Expenditures and other Financing sources (uses)	1,160	20,367	-	21,527
Fund Balance - January 1	<u>125,494</u>	<u>200,546</u>	<u>30,261</u>	<u>356,301</u>
Fund Balance - December 31	<u>\$ 126,654</u>	<u>\$ 220,913</u>	<u>\$ 30,261</u>	<u>\$ 377,828</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2016

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Total</u>
Assets							
Cash	\$ 8,098	\$ 53,194	\$ 46,103	\$ 23,181	\$ 168	\$ 1,019	\$ 131,763
Taxes receivable	-	683	-	246	-	-	929
Due from other governments	-	1,128	-	340	-	-	1,468
	<u>-</u>	<u>1,128</u>	<u>-</u>	<u>340</u>	<u>-</u>	<u>-</u>	<u>1,468</u>
Total Assets	<u>\$ 8,098</u>	<u>\$ 55,005</u>	<u>\$ 46,103</u>	<u>\$ 23,767</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 134,160</u>
Liabilities							
Accounts payable	\$ -	\$ 50	\$ -	\$ 6,527	\$ -	\$ -	\$ 6,577
	<u>-</u>	<u>50</u>	<u>-</u>	<u>6,527</u>	<u>-</u>	<u>-</u>	<u>6,577</u>
Total liabilities	-	50	-	6,527	-	-	6,577
	<u>-</u>	<u>50</u>	<u>-</u>	<u>6,527</u>	<u>-</u>	<u>-</u>	<u>6,577</u>
Deferred Inflows of Resources							
Unavailable revenue- property taxes	-	683	-	246	-	-	929
	<u>-</u>	<u>683</u>	<u>-</u>	<u>246</u>	<u>-</u>	<u>-</u>	<u>929</u>
Fund Balance							
Restricted	8,098	54,272	46,103	16,994	168	1,019	126,654
Total fund balance	8,098	54,272	46,103	16,994	168	1,019	126,654
	<u>8,098</u>	<u>54,272</u>	<u>46,103</u>	<u>16,994</u>	<u>168</u>	<u>1,019</u>	<u>126,654</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 8,098</u>	<u>\$ 55,005</u>	<u>\$ 46,103</u>	<u>\$ 23,767</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 134,160</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Total</u>
Revenues							
Taxes	\$ 142	\$ 12,336	\$ 19,001	\$ 3,842	\$ -	\$ -	\$ 35,321
Intergovernmental	-	701	-	213	-	-	914
Other	-	458	-	4	-	-	462
Total revenues	<u>142</u>	<u>13,495</u>	<u>19,001</u>	<u>4,059</u>	<u>-</u>	<u>-</u>	<u>36,697</u>
Expenditures							
Current							
General government	1,253	9,257	18,500	-	-	-	29,010
Capital outlay	-	-	-	6,527	-	-	6,527
Total expenditures	<u>1,253</u>	<u>9,257</u>	<u>18,500</u>	<u>6,527</u>	<u>-</u>	<u>-</u>	<u>35,537</u>
Excess Revenues Over (Under)							
Expenditures and other							
Financing sources (uses)	(1,111)	4,238	501	(2,468)	-	-	1,160
Fund Balance - January 1	<u>9,209</u>	<u>50,034</u>	<u>45,602</u>	<u>19,462</u>	<u>168</u>	<u>1,019</u>	<u>125,494</u>
Fund Balance - December 31	<u>\$ 8,098</u>	<u>\$ 54,272</u>	<u>\$ 46,103</u>	<u>\$ 16,994</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 126,654</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
AS OF DECEMBER 31, 2016

	<u>2005-B</u>	<u>2008-B</u>	<u>2008-A Sales Tax Revenue Bonds</u>	<u>Total</u>
Assets				
Cash	\$ 30,833	\$ 32,472	\$ 106,936	\$ 170,241
Investments	-	-	50,400	50,400
Special assessments receivable	15,723	54,394	-	70,117
Interest receivable	-	-	272	272
Total Assets	<u>\$ 46,556</u>	<u>\$ 86,866</u>	<u>\$ 157,608</u>	<u>\$ 291,030</u>
Liabilities				
Total liabilities	\$ -	\$ -	\$ -	\$ -
Deferred Inflows of Resources				
Uncertified special assessments	<u>15,723</u>	<u>54,394</u>	<u>-</u>	<u>70,117</u>
Fund Balance				
Restricted	<u>30,833</u>	<u>32,472</u>	<u>157,608</u>	<u>220,913</u>
Total Deferred Inflows of Resources and Fund Balance	<u>\$ 46,556</u>	<u>\$ 86,866</u>	<u>\$ 157,608</u>	<u>\$ 291,030</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Refunding Bonds		2008-A Sales Tax	
	2005-B	2008-B	Revenue Bonds	Total
Revenues:				
Sales taxes	\$ -	\$ -	\$ 232,134	\$ 232,134
Special assessments	22,367	37,400	-	59,767
Other	-	9	1,614	1,623
	<u>22,367</u>	<u>37,409</u>	<u>233,748</u>	<u>293,524</u>
Total revenues				
Expenditures:				
Other	-	-	74,522	74,522
Debt Service:				
Principal	-	40,000	50,000	90,000
Interest	-	3,410	105,225	108,635
	<u>-</u>	<u>43,410</u>	<u>229,747</u>	<u>273,157</u>
Total expenditures				
Excess of Revenues over (under) Expenditures	22,367	(6,001)	4,001	20,367
Fund Balance (Deficit), January 1	<u>8,466</u>	<u>38,473</u>	<u>153,607</u>	<u>200,546</u>
Fund Balance (Deficit), December 31	<u>\$ 30,833</u>	<u>\$ 32,472</u>	<u>\$ 157,608</u>	<u>\$ 220,913</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
AS OF DECEMBER 31, 2016

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

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Urban Roads	Lessard Avenue	Total
Revenues:			
Total revenues	\$ -	\$ -	\$ -
Expenditures			
Publishing and printing	-	231	231
Professional fees	-	7,679	7,679
Capital outlay	-	64,185	64,185
Total expenditures	-	72,095	72,095
Revenues Over (Under)			
Expenditures before			
Other financing			
Sources	-	(72,095)	(72,095)
Other Financing Sources (Uses)			
Transfers in	-	72,095	72,095
Excess Revenues and Other			
Financing Sources Over			
(Under) Expenditures	-	-	-
Fund Balance (Deficit),			
January 1	30,261	-	30,261
Fund Balance (Deficit),			
December 31	\$ 30,261	\$ -	\$ 30,261

CITY OF GRAFTON, NORTH DAKOTA
COMBINING BALANCE SHEET – COMPONENT UNITS
AS OF DECEMBER 31, 2016

	Airport Authority	Volunteer Fire Department	Total
ASSETS			
Cash and cash equivalents	\$ 14,695	\$ 139,843	\$ 154,538
Investments	150,400	286,512	436,912
Receivables:			
Grants	53,040	-	53,040
Taxes	1,451	-	1,451
Interest	766	-	766
Due from other governments	2,321	-	2,321
Prepaid insurance	838	-	838
TOTAL ASSETS	<u>\$ 223,511</u>	<u>\$ 426,355</u>	<u>\$ 649,866</u>
LIABILITIES			
Liabilities			
Accounts payable	\$ 78,139	\$ -	\$ 78,139
Total liabilities	<u>78,139</u>	<u>-</u>	<u>78,139</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	<u>1,451</u>	<u>-</u>	<u>1,451</u>
FUND BALANCE			
Restricted	143,921	-	143,921
Committed	<u>-</u>	<u>426,355</u>	<u>426,355</u>
Total fund balance	<u>143,921</u>	<u>426,355</u>	<u>570,276</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 223,511</u>	<u>\$ 426,355</u>	<u>\$ 649,866</u>

CITY OF GRAFTON, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Airport Authority</u>	<u>Volunteer Fire Department</u>	<u>Total</u>
Revenues			
Taxes	\$ 25,946	\$ -	\$ 25,946
Intergovernmental	69,510	-	69,510
Other	<u>26,673</u>	<u>296,620</u>	<u>323,293</u>
Total revenues	<u>122,129</u>	<u>296,620</u>	<u>418,749</u>
Expenditures			
Current			
Public safety	34,620	246,959	281,579
Capital Outlay	<u>94,205</u>	<u>-</u>	<u>94,205</u>
Total expenditures	<u>128,825</u>	<u>246,959</u>	<u>375,784</u>
Excess Revenues and Other Financing Sources Over (Under) Expenditures	(6,696)	49,661	42,965
Fund Balance, January 1	<u>150,617</u>	<u>376,694</u>	<u>527,311</u>
Fund Balance, December 31	<u>\$ 143,921</u>	<u>\$ 426,355</u>	<u>\$ 570,276</u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 1, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

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

June 1, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Grafton's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Grafton, North Dakota's major federal programs for the year ended December 31, 2016. The City of Grafton, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Grafton, North Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



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

June 1, 2017

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Program Title	Federal CFDA Number	Grant Number Pass Through Entity Identifying Number	Expenditures
Department of Transportation			
Passed through North Dakota Aeronautics Commission			
Airport Improvement Program	20.106		\$ <u>50,249</u>
Environmental Protection Agency			
Direct			
Congressionally Mandated Projects	66.202		481,336
Passed through North Dakota Public Finance Authority			
Capitalization Grants for Drinking Water State Revolving Funds	66.458	5000408-03	311,373
Capitalization Grants for Drinking Water State Revolving Funds	66.468	380997-01	<u>975,968</u>
Total Environmental Protection Agency			<u>1,768,677</u>
Department of Homeland Security			
Passed through North Dakota Adjutant general			
Disaster Grants-Public Assistance	97.036	DR 4118 & DR 4128	15,677
Hazard Mitigation Grant	97.039	DR 4118	<u>267,351</u>
Total Department of Homeland Security			<u>283,028</u>
Total Federal Expenditures			<u>\$ 2,101,954</u>

See Notes to the Schedule of Expenditures of Federal Awards

CITY OF GRAFTON, NORTH DAKOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2016

NOTE 1 - BASIS OF ACCOUNTING

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Grafton, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual 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. The City has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - RISK-BASED AUDIT APPROACH

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000.

NOTE 4 - LOAN PROGRAMS

The outstanding balance as of December 31, 2016 and current year advances on loan programs were as follows:

	<u>Balance</u>	2016 <u>Advances</u>
Capitalization Grants for Drinking Water		
State Revolving Funds		
Water project	\$ 1,791,889	\$ 975,968
Wastewater project	<u>361,535</u>	<u>311,373</u>
	<u>\$ 2,153,424</u>	<u>\$ 1,287,341</u>

CITY OF GRAFTON, NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Summary of Auditor's Results

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		<u>Unmodified</u>	
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ x	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	_____ x	None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ x	No

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ x	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	_____ x	None Reported
Type of auditor's report issued on compliance for major programs:		<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance-2CFR 200.516(a)?	_____ Yes	_____ x	No

Identification of major programs:

CFDA Number - Name of Federal Program

66.202 Congressionally Mandated Projects

Dollar threshold used to distinguish between Type A and Type B programs:		\$	<u>750,000</u>	
Auditee qualified as low-risk auditee?	_____ x	Yes	_____	No

Section II – Financial Statement Findings

There are no findings that are required to be reported under this section

Section III – Federal Award Findings and Questioned Costs

There are no findings that are required to be reported under this section.

CITY OF GRAFTON, NORTH DAKOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Prior Audit Findings

The prior audit contained no deficiencies.