

**CITY OF GRAFTON  
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

## TABLE OF CONTENTS

	Page
<b>OFFICIAL DIRECTORY</b>	<b>1</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	15
Reconciliation of the Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities	18
Proprietary Funds	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Net Position	20
Statement of Cash Flows	21
Fiduciary Fund	
Statement of Assets and Liabilities	22
Notes to the Financial Statements	23
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule	
General Fund	47
Development Sales Tax Fund	48
Note to the Budgetary Comparison Schedules	49

Schedule of Employers Share of Net Pension Liability	50
Schedule of Employer Contributions	51
Note to the Required Supplementary Information	52

## **OTHER SUPPLEMENTARY INFORMATION**

Combining Financial Statements	
Balance Sheet - Non-Major Governmental Funds	53
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Governmental Funds	54
Balance Sheet - Non-Major Special Revenue Funds	55
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Special Revenue Funds	56
Balance Sheet - Non-Major Debt Service Funds	57
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Debt Service Funds	58
Balance Sheet - Non-Major Capital Projects Funds	59
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Capital Projects Funds	60
Balance Sheet - Component Units	61
Statement of Revenues, Expenditures, and Changes in Fund Balance - Component Units	62

<b>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</b>	<b>63</b>
---	-----------

**CITY OF GRAFTON, NORTH DAKOTA**  
**OFFICIAL DIRECTORY**  
**AS OF DECEMBER 31, 2017**

<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
Phil Ray	Council Member - Third Ward	2020
Don Hutson	Council Member - Fourth Ward	2020

OFFICERS AND MAYOR

Chris Lipsh	President
Greg Young	Vice-President
Chris West	Mayor

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grafton, North Dakota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As described in Note 11 to the financial statements, prior period adjustments were made to net position and fund balances to correct ending balances in the prior year ending June 30, 2016.

## **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 and component units financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund and component units financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with

auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2018, on our consideration of the City of Grafton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Grafton, North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Grafton's internal control over financial reporting and compliance.

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, 2018

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017. 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, 2017**

**Fund Financial Statements:**

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

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

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

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

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

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

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

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

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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

**Notes to the Financial Statements:**

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

Financial Analysis of the City as a whole:

The City's net position for the years ended December 31, 2017 and 2016 is summarized below; see the statement of net position in the financial statements for more detail.

	Governmental Activities		Business-Type Activities	
	12/31/17	12/31/16	12/31/17	12/31/16
<b>ASSETS</b>				
Current assets	\$ 7,581,689	\$ 6,072,295	\$ 3,737,549	\$ 3,497,603
Capital assets				
Property, plant and equipment	15,674,774	13,370,864	34,495,249	26,337,675
Construction in progress	7,449,182	5,144,411	199,815	7,181,732
Less accumulated depreciation	(3,775,090)	(3,560,809)	(18,610,340)	(18,016,870)
Other non-current assets	2,392,580	2,146,627	233,185	213,315
<b>TOTAL ASSETS</b>	<b>29,323,135</b>	<b>23,173,388</b>	<b>20,055,458</b>	<b>19,213,455</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>788,576</b>	<b>319,125</b>	<b>316,768</b>	<b>126,095</b>
<b>LIABILITIES</b>				
Current Liabilities	257,455	284,883	802,014	816,483
Long-term Liabilities				
Bonds and notes payable-Due within one year	372,188	282,573	201,757	234,000
Bonds and notes payable-Noncurrent portion	8,632,259	5,577,880	2,726,760	2,619,424
Net pension liability	1,671,077	998,092	723,312	477,536
<b>TOTAL LIABILITIES</b>	<b>10,932,979</b>	<b>7,143,428</b>	<b>4,453,843</b>	<b>4,147,443</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>81,662</b>	<b>91,636</b>	<b>35,345</b>	<b>43,841</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	10,401,380	9,142,086	13,156,207	12,649,113
Restricted	5,070,753	3,170,115	325,630	315,728
Unrestricted	3,624,937	3,945,248	2,401,201	2,183,425
<b>TOTAL NET POSITION</b>	<b>\$ 19,097,070</b>	<b>\$ 16,257,449</b>	<b>\$ 15,883,038</b>	<b>\$ 15,148,266</b>

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Governmental Activities:**

The City of Grafton's governmental activities net position increased \$2,839,621 for the year ended December 31, 2017. Included in this increase is the reclassification of the Volunteer Fire department from a discretely presented component unit to a blended component unit and inclusion as a special revenue fund. 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 \$734,777. 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	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
<b>REVENUES</b>				
Program Revenues:				
Charges for services	\$ 351,520	\$ 369,503	\$ 8,490,188	\$ 7,938,573
Capital grants and contributions	-	555,029	456,535	2,811,439
Total program revenues	351,520	924,532	8,946,723	10,750,012
General Revenues:				
Taxes	1,758,885	1,835,070	-	-
Special assessments	61,664	13,302	-	-
Intergovernmental	3,224,380	1,526,387	-	-
Other	363,681	17,764	190,556	59,747
Total general revenues	5,408,610	3,392,523	190,556	59,747
Total revenues	5,760,130	4,317,055	9,137,279	10,809,759
<b>EXPENSES</b>				
Governmental:				
General government	845,991	577,476	-	-
Public safety	996,804	964,979	-	-
Highways and streets	1,003,548	1,068,562	-	-
Health and welfare	57,697	58,077	-	-
Other	1,159,719	639,049	-	-
Interest	234,151	197,038	-	-
Fiscal charges	-	-	-	-
Bond issuance costs	-	-	-	-
Business type activities operating expenses:				
Electric	-	-	5,524,050	5,546,223
Water	-	-	1,091,832	1,018,495
Wastewater	-	-	509,437	422,122
Sanitation	-	-	387,274	370,728
Pest control	-	-	67,661	150,968
Total expenses	4,297,910	3,505,181	7,580,254	7,508,536
Change in net position before transfers	1,462,220	811,874	1,557,025	3,301,223
Transfers in (out)	822,250	880,000	(822,250)	(880,000)
Change in net position	2,284,470	1,691,874	734,775	2,421,223
Net position beginning of year	16,257,449	14,565,575	15,148,263	12,727,043
Prior period adjustment	555,151	-	-	-
Net position end of year	\$ 19,097,070	\$ 16,257,449	\$ 15,883,038	\$ 15,148,266

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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 \$6,959,001.

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 \$838,635 while the total fund balance was \$1,857,987. 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 46% of the total general fund balance and 35% of total general fund expenditures.

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

Development Sales Tax	\$2,241,189
Flood Control	1,621,170
Other Governmental Funds	1,238,655

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, 2017**

**Proprietary Funds**

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

Unrestricted net position of the City of Grafton's proprietary funds at the end of the year amounted to \$2,401,201. This balance consisted of \$749,086 in the Electric fund, \$1,082,120 in the Water fund, \$155,304 in the Wastewater fund, and \$279,350 and \$135,341 in the Sanitation and Pest Control funds, respectively.

**Governmental Fund Budgetary Highlights**

The General Fund expenditures were amended \$180,644 largely due to insurance claim reimbursements and purchases from assigned funds whereby the current year budget was increased to reflect the expense.

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 2017 budget was increased as expenditures were made.

The Airport Fund expenditures were amended \$472,890 to account for contracts in place for an Airport Layout Plan study and a lighting replacement project. As contractors are paid, the Airport Fund will be reimbursed by 95% federal and 5% state grants.

The Sales Tax Fund transfers an amount equal to the debt service payments for the Flood Risk Reduction Project. The new 2017 Definitive Warrant Fund budget was amended to reflect the 2017 transfer from the Sales Tax Fund and the expense to make the annual interest payment.

**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, 2017 amounted to \$35,433,590 (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 \$4,394,400 in the governmental activities and an increase of \$582,187 in the business-type activities. The significant additions in the governmental activities were costs related to the City's flood protection project and in the business type activities improvements to the utility distribution systems. See note 3 for details.

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Debt**

At year-end, the City had outstanding long-term debt of \$10,675,524, an increase of \$3,816,979 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 \$3,800,000, 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, 2017:

GOVERNMENTAL ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year
Refunding Improvement Bonds:							
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,120,000	\$ -	\$ (25,000)	\$ -	\$ 3,095,000	\$ 25,000
Bond Premium		38,380	-	-	(2,020)	36,360	-
\$405,000 of 2008B	3.15% - 3.7%	60,000	-	(40,000)	-	20,000	20,000
General Obligation Bonds 2012	.4%-1.4%	560,000	-	(90,000)	-	470,000	90,000
Sales Tax Revenue Bonds							
\$2,350,000 2008A	3.5% - 5.5%	1,985,000	-	(55,000)	-	1,930,000	55,000
Definitive Improvement 2017	1.50%	-	3,375,000	(3,374)	-	3,371,626	100,727
Compensated Absences		48,073	-	-	8,888	56,961	-
Other Debt:							
Due to Electric -General Fund Fire	0.00%	49,000	-	(24,500)	-	24,500	24,500
Net Pension Liability		998,092	-	-	672,985	1,671,077	-
		<u>\$ 6,858,545</u>	<u>\$ 3,375,000</u>	<u>\$ (237,874)</u>	<u>\$ 679,853</u>	<u>\$ 10,675,524</u>	<u>\$ 315,227</u>

BUSINESS-TYPE ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year
<u>Water</u>							
ND Public Finance Water Revenue Bonds	2.50%	\$ 100,000	\$ -	\$ (15,000)	\$ -	\$ 85,000	\$ 15,000
ND Public Finance	2.50%	480,000	-	(63,000)	-	417,000	65,000
ND Public Finance	2.00%	1,791,889	173,868	(125,000)	-	1,840,757	90,757
Net Pension Liability		192,566	-	-	96,214	288,780	-
		<u>\$ 2,564,455</u>	<u>\$ 173,868</u>	<u>\$ (203,000)</u>	<u>\$ 96,214</u>	<u>\$ 2,631,537</u>	<u>\$ 170,757</u>
<u>Wastewater</u>							
ND Public Finance-Clean Water Loan	2.00%	\$ 361,535	\$ 135,225	\$ (1,000)	\$ -	\$ 495,760	\$ 1,000
ND Public Finance-Sewer Revenue Bonds	2.50%	120,000	-	(30,000)	-	90,000	30,000
Net Pension Liability		72,180	-	-	53,477	125,657	-
		<u>\$ 553,715</u>	<u>\$ 135,225</u>	<u>\$ (31,000)</u>	<u>\$ 53,477</u>	<u>\$ 711,417</u>	<u>\$ 31,000</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Economic Factors and Next Year's Budgets and Rates

Construction of a permanent flood control project has begun and will be substantially completed by the fall of 2019 at an estimated cost of \$48,000,000. 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 refunding improvement bonds. The bonds are backed by special assessments; however, sales tax funds have been designated to fund the debt for the Flood Risk Reduction project including a citizen vote to increase the sales tax rate by an additional ½% effective through March 31, 2040.

Electric rates were adjusted 2.67% in 2018 along with the customer base charges being increased to cover the increased cost of maintaining infrastructure. Water rates are affordable with a \$16.50 base fee and \$5.97 per 1,000 gallons of consumption.

The value of a mill for the 2018 budget is \$6,868 and is anticipated to be approximately \$7,350 for 2019.

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**AS OF DECEMBER 31, 2017**

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,263,100	\$ 1,268,380	\$ 5,531,480	\$ 69,930
Restricted cash and cash equivalents	-	92,445	92,445	-
Investments	2,332,426	904,440	3,236,866	101,060
Receivables:				
Taxes	34,480	-	34,480	1,405
Accounts (net of uncollectibles)	43,645	1,065,631	1,109,276	-
Other	-	70,768	70,768	13,837
Special assessments	706,049	-	706,049	-
Interest	13,411	3,199	16,610	497
Notes-current portion	-	26,000	26,000	-
Due from other governments	101,949	-	101,949	3,848
Prepaid expense	11,229	10,053	21,282	838
Inventory	75,400	296,633	372,033	-
Capital Assets-not being depreciated				
Land	-	964,472	964,472	-
Construction in progress	7,449,182	199,815	7,648,997	-
Capital Assets				
Property, plant and equipment	15,674,774	33,530,777	49,205,551	2,457,778
Less accumulated depreciation	(3,775,090)	(18,610,340)	(22,385,430)	(495,818)
Other Assets				
Restricted cash and cash equivalents	-	233,185	233,185	-
Notes receivable-non current	462,580	-	462,580	-
Notes receivable-Unity Hospital	1,930,000	-	1,930,000	-
<b>TOTAL ASSETS</b>	<b>29,323,135</b>	<b>20,055,458</b>	<b>49,378,593</b>	<b>2,153,375</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Cost sharing defined benefit pension plan-NDPERS	788,576	316,768	1,105,344	-
<b>LIABILITIES</b>				
Accounts payable	82,300	530,643	612,943	10,809
Salaries payable	61,345	24,007	85,352	-
Vacations payable	3,488	23,884	27,372	-
Interest payable	33,244	20,475	53,719	-
Due to other governments	77,078	-	77,078	-
Customer deposits	-	203,005	203,005	-
Noncurrent liabilities				
Compensated absences	56,961	-	56,961	-
Bonds and notes payable-due within one year	315,227	201,757	516,984	-
Bonds and notes payable-due in more than one year	8,632,259	2,726,760	11,359,019	-
Net pension liability	1,671,077	723,312	2,394,389	-
<b>TOTAL LIABILITIES</b>	<b>10,932,979</b>	<b>4,453,843</b>	<b>15,386,822</b>	<b>10,809</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Cost sharing defined benefit pension plan-NDPERS	81,662	35,345	117,007	-
<b>NET POSITION</b>				
Net investment in capital assets	10,401,380	13,156,207	23,557,587	1,961,960
Restricted-Debt service	493,464	325,630	819,094	-
Restricted-Flood control	1,621,170	-	1,621,170	-
Restricted-Economic development	2,241,189	-	2,241,189	-
Restricted-other	714,930	-	714,930	180,606
Unrestricted (deficit)	3,624,937	2,401,201	6,026,138	-
<b>TOTAL NET POSITION</b>	<b>\$ 19,097,070</b>	<b>\$ 15,883,038</b>	<b>\$ 34,980,108</b>	<b>\$ 2,142,566</b>

See Notes to the Financial Statements



**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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	
<b>Governmental Activities</b>								
Current								
General government	\$ 845,991	\$ 123,439	\$ -	\$ -	\$ (722,552)	\$ -	\$ (722,552)	\$ -
Public safety	996,804	57,090	-	-	(939,714)	-	(939,714)	-
Highways and streets	1,003,548	170,991	-	-	(832,557)	-	(832,557)	-
Health and welfare	57,697	-	-	-	(57,697)	-	(57,697)	-
Other	1,159,719	-	-	-	(1,159,719)	-	(1,159,719)	-
Debt service								
Interest	234,151	-	-	-	(234,151)	-	(234,151)	-
Total Governmental Activities	4,297,910	351,520	-	-	(3,946,390)	-	(3,946,390)	-
<b>Business-Type Activities</b>								
Electric	5,524,050	6,248,840	-	-	-	724,790	724,790	-
Water	1,091,832	1,180,771	-	300,351	-	389,290	389,290	-
Wastewater	509,437	513,191	-	154,036	-	157,790	157,790	-
Sanitation	387,274	410,557	-	-	-	23,283	23,283	-
Pest control	67,661	136,829	-	2,148	-	71,316	71,316	-
Total Business-Type Activities	7,580,254	8,490,188	-	456,535	-	1,366,469	1,366,469	-
Total Primary Government	\$ 11,878,164	\$ 8,841,708	\$ -	\$ 456,535	(3,946,390)	1,366,469	(2,579,921)	-
<b>Component Units</b>								
Airport Authority	\$ 328,632	\$ -	\$ -	\$ 209,923	-	-	-	(118,709)
Total Component Units	\$ 328,632	\$ -	\$ -	\$ 209,923	-	-	-	(118,709)
General Receipts:								
Taxes					1,758,885	-	1,758,885	27,881
Special assessments					61,664	-	61,664	-
Intergovernmental (not restricted for specific program)								
State and federal					3,224,380	-	3,224,380	-
Interest earnings					-	18,809	18,809	-
Decrease in long term receivable					(55,000)	-	(55,000)	-
Other general revenues					469,562	115,461	585,023	43,167
Gain (loss) on sale of capital assets					(50,881)	56,286	5,405	-
Transfers					822,250	(822,250)	-	-
Total General Receipts, Transfers and Sale of Capital Assets					6,230,860	(631,694)	5,599,166	71,048
Changes in Net Position					2,284,470	734,775	3,019,245	(47,661)
Net Position, January 1, as originally reported					16,257,449	15,148,263	31,405,712	2,616,582
Prior Period Adjustment					555,151	-	555,151	(426,355)
Net Position - Beginning as Restated					16,812,600	15,148,263	31,960,863	2,190,227
Net Position, December 31					\$ 19,097,070	\$ 15,883,038	\$ 34,980,108	\$ 2,142,566

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**AS OF DECEMBER 31, 2017**

		<u>Special Revenue</u>	<u>Capital Projects</u>		
		Grafton Community Development Sales Tax	Flood Control	Other Governmental Funds	
	General				Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 907,739	\$ 1,411,750	\$ 1,332,985	\$ 551,934	\$ 4,204,408
Investments	903,560	750,000	-	678,866	2,332,426
Receivables:					
Taxes	30,740	-	-	3,740	34,480
Accounts (net of uncollectibles)	43,412	-	-	-	43,412
Other	-	152,207	310,373	-	462,580
Special assessments	18,139	527,722	-	160,188	706,049
Interest	4,679	5,309	-	3,423	13,411
Due from other governments	91,633	-	-	10,316	101,949
Prepaid expense	10,321	-	-	-	10,321
Total Assets	<u>\$ 2,010,223</u>	<u>\$ 2,846,988</u>	<u>\$ 1,643,358</u>	<u>\$ 1,408,467</u>	<u>\$ 7,909,036</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 44,308	\$ 999	\$ 22,188	\$ 5,884	\$ 73,379
Salaries payable	59,049	-	-	-	59,049
Due to other governments	-	77,078	-	-	77,078
Total Liabilities	<u>103,357</u>	<u>78,077</u>	<u>22,188</u>	<u>5,884</u>	<u>209,506</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue- property taxes	30,740	-	-	3,740	34,480
Uncertified special assessments	18,139	527,722	-	160,188	706,049
Total Deferred Inflows of Resources	<u>48,879</u>	<u>527,722</u>	<u>-</u>	<u>163,928</u>	<u>740,529</u>
<b>FUND BALANCE</b>					
Nonspendable	10,321	-	-	-	10,321
Restricted	-	2,241,189	1,621,170	1,208,394	5,070,753
Unrestricted					
Committed	-	-	-	30,261	30,261
Assigned	1,009,031	-	-	-	1,009,031
Unassigned	838,635	-	-	-	838,635
Total Fund Balance	<u>1,857,987</u>	<u>2,241,189</u>	<u>1,621,170</u>	<u>1,238,655</u>	<u>6,959,001</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 2,010,223</u>	<u>\$ 2,846,988</u>	<u>\$ 1,643,358</u>	<u>\$ 1,408,467</u>	<u>\$ 7,909,036</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, 2017**

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

Total fund balance-governmental funds	\$ 6,959,001
---------------------------------------	--------------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 22,539,627	
Accumulated Depreciation	<u>(3,299,203)</u>	
Net		19,240,424

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.	677,313
---	---------

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	34,480
Uncertified special assessments	706,049

Long-term due from Unity Hospital are not available to pay for current period expenditures and therefore are not recorded in the funds.	1,930,000
---	-----------

The City accounts for its internal maintenance fund as an internal service fund. The assets and liabilities of the internal service fund are included with governmental activities.	182,486
---	---------

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	(56,961)	
Accrued interest payable	(33,244)	
Bonds payable	(8,886,626)	
Premium on bonds payable	(36,360)	
Net pension liability	(1,594,992)	
Notes payable	<u>(24,500)</u>	
		<u>(10,632,683)</u>

Total net position-governmental activities	<u>\$ 19,097,070</u>
--	----------------------

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, 2017**

	<b>General</b>	<b>Special Revenue Grafton Community Development Sales Tax</b>	<b>Capital Projects Flood Control</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>REVENUES</b>					
Taxes	\$ 640,081	\$ 821,777	\$ -	\$ 297,968	\$ 1,759,826
Special assessments	5,583	65,006	-	83,163	153,752
Licenses and permits	118,106	-	-	-	118,106
Intergovernmental	632,589	297	2,587,299	4,195	3,224,380
Charges for services	5,333	-	-	-	5,333
Fines and forfeits	57,090	-	-	-	57,090
Miscellaneous	147,417	102,666	20,829	192,894	463,806
Total Revenues	<u>1,606,199</u>	<u>989,746</u>	<u>2,608,128</u>	<u>578,220</u>	<u>5,782,293</u>
<b>EXPENDITURES</b>					
Current:					
General government	604,103	-	-	25,918	630,021
Public safety	780,082	-	-	159,882	939,964
Highways and streets	548,992	-	-	-	548,992
Health and welfare	39,345	-	-	-	39,345
Other	45,378	528,037	1,658	68,244	643,317
Professional fees	-	-	516,402	-	516,402
Capital outlay	374,423	-	4,421,471	5,634	4,801,528
Debt service:					
Principal retirement	24,500	-	-	213,374	237,874
Interest	-	-	-	228,373	228,373
Total expenditures	<u>2,416,823</u>	<u>528,037</u>	<u>4,939,531</u>	<u>701,425</u>	<u>8,585,816</u>
Revenues Over (Under) Expenditures	(810,624)	461,709	(2,331,403)	(123,205)	(2,803,523)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from issuance of debt	-	-	3,375,000	-	3,375,000
Operating transfers in	830,036	-	-	148,851	978,887
Operating transfers out	-	(148,852)	-	(45,036)	(193,888)
Total Other Financing Sources (Uses)	<u>830,036</u>	<u>(148,852)</u>	<u>3,375,000</u>	<u>103,815</u>	<u>4,159,999</u>
Net Change in Fund Balance	<u>19,412</u>	<u>312,857</u>	<u>1,043,597</u>	<u>(19,390)</u>	<u>1,356,476</u>
Fund Balance - January 1, originally reported	1,838,575	1,928,332	577,573	1,129,249	5,473,729
Prior Period Adjustment	-	-	-	128,796	128,796
Net Position - Beginning as Restated	<u>1,838,575</u>	<u>1,928,332</u>	<u>577,573</u>	<u>1,258,045</u>	<u>5,602,525</u>
Fund Balance - December 31	<u>\$ 1,857,987</u>	<u>\$ 2,241,189</u>	<u>\$ 1,621,170</u>	<u>\$ 1,238,655</u>	<u>\$ 6,959,001</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, 2017**

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

Net change in fund balance- total governmental funds	\$	1,356,476
--	----	-----------

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	\$ 4,801,528	
Loss on disposal	(50,881)	
Depreciation expense	<u>(342,774)</u>	
Excess of capital outlay over depreciation expense		4,407,873

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	237,874	
Loan proceeds	(3,375,000)	
Amortization of bond premium	<u>2,020</u>	
		(3,135,106)

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	(941)
Net change in uncertified special assessments	(92,088)

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

Decrease in long term receivable	(55,000)
----------------------------------	----------

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.

(7,798)

Changes in deferred outflows and inflows of resources related to net pension liability	459,456
--	---------

Change in net pension liability	(652,826)
---------------------------------	-----------

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	(8,888)
----------------------------------	---------

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.

13,312

Net change in net position of governmental activities	\$	<u>2,284,470</u>
---	----	------------------

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2017**

	Business-type Activities Enterprise Funds						Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents	\$ 309,302	\$ 723,984	\$ 137,260	\$ 54,122	\$ 43,712	\$ 1,268,380	\$ 58,692
Restricted cash and cash equivalents	-	77,230	15,215	-	-	92,445	-
Investments	251,000	351,830	50,000	176,610	75,000	904,440	-
Receivables:							
Other	1,690	17,970	50,960	-	148	70,768	233
Accounts (net of uncollectibles)	802,231	135,380	62,817	48,852	16,351	1,065,631	-
Interest	876	1,022	94	903	304	3,199	-
Notes receivable - current portion	26,000	-	-	-	-	26,000	-
Prepaid expenses	4,124	4,936	981	3	9	10,053	908
Inventory	203,836	86,634	6,163	-	-	296,633	75,400
Total current assets	1,599,059	1,398,986	323,490	280,490	135,524	3,737,549	135,233
Capital assets-not being depreciated							
Land	677,145	40,810	195,993	50,524	-	964,472	-
Construction in progress	14,710	950	184,155	-	-	199,815	-
Capital assets							
Buildings/Improvements	1,352,665	7,589,825	952,449	13,900	-	9,908,839	507,838
Transmission system	6,483,354	10,261,671	5,592,841	-	-	22,337,866	38,979
Machinery and equipment	731,846	192,540	320,079	3,340	36,267	1,284,072	37,512
Total capital assets	9,259,720	18,085,796	7,245,517	67,764	36,267	34,695,064	584,329
Less accumulated depreciation	(6,407,253)	(7,808,777)	(4,348,579)	(13,045)	(32,686)	(18,610,340)	(475,887)
Net capital assets	2,852,467	10,277,019	2,896,938	54,719	3,581	16,084,724	108,442
Other assets							
Restricted cash and cash equivalents	-	213,315	19,870	-	-	233,185	-
Total other assets	-	213,315	19,870	-	-	233,185	-
<b>TOTAL ASSETS</b>	4,451,526	11,889,320	3,240,298	335,209	139,105	20,055,458	243,675
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Cost sharing defined benefit pension plan-NDPERS	135,269	126,469	55,030	-	-	316,768	33,320
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable	437,613	29,120	62,587	1,140	183	530,643	8,921
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	-	16,420	4,055	-	-	20,475	-
Bonds payable-current portion	-	170,757	31,000	-	-	201,757	-
Customer deposits	203,005	-	-	-	-	203,005	-
Total current liabilities	661,273	233,972	107,203	1,140	183	1,003,771	14,705
Long-term liabilities							
Non-current portion	-	2,172,000	554,760	-	-	2,726,760	-
Net pension liability	308,875	288,779	125,658	-	-	723,312	76,085
Total non-current liabilities	308,875	2,460,779	680,418	-	-	3,450,072	76,085
<b>TOTAL LIABILITIES</b>	970,148	2,694,751	787,621	1,140	183	4,453,843	90,790
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Cost sharing defined benefit pension plan-NDPERS	15,094	14,111	6,140	-	-	35,345	3,719
<b>NET POSITION</b>							
Net investment in capital assets	2,852,467	7,934,262	2,311,178	54,719	3,581	13,156,207	108,442
Restricted for bond covenants	-	290,545	35,085	-	-	325,630	-
Unrestricted	749,086	1,082,120	155,304	279,350	135,341	2,401,201	74,044
<b>TOTAL NET POSITION</b>	\$ 3,601,553	\$ 9,306,927	\$ 2,501,567	\$ 334,069	\$ 138,922	\$ 15,883,038	\$ 182,486

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business-type Activities Enterprise Funds					Governmental Activities Internal Service Funds
	Electric	Water	Wastewater	Sanitation	Pest Control	Total
<b>Operating Revenues:</b>						
Sales - Net of Discounts	\$ 6,148,146	\$ 1,176,203	\$ 513,091	\$ 410,557	\$ 136,752	\$ 8,384,749
<b>Operating Expenses:</b>						
Cost of goods sold	4,367,336	-	-	-	-	4,367,336
Utilities and phone	9,970	129,234	99,373	466	-	239,043
Materials and supplies	7,249	4,820	2,608	-	-	14,677
Repairs and maintenance	19,320	5,421	2,623	-	-	27,364
Gas, fuel and oil	3,736	561	1,058	-	89	5,444
Insurance	75,904	65,946	47,388	5	167	189,410
Uniforms	2,967	241	-	-	-	3,208
Contracted services	1,388	9,152	1,646	352,872	33,649	398,707
Technology	-	3,790	100	-	-	3,890
Salaries	217,694	198,144	86,728	-	-	502,566
Payroll taxes	16,187	14,579	6,566	-	-	37,332
Retirement	35,571	38,538	26,381	-	-	100,490
Rent	-	-	6,576	-	-	6,576
Miscellaneous	56,138	23,736	(452)	1,777	613	81,812
Depreciation	196,956	264,524	136,917	835	1,791	601,023
General equipment	11,993	3,624	3,627	-	-	19,244
Operating expenses	293,246	146,181	46,808	28,113	-	514,348
Distribution system	51,813	17,749	28,509	-	85	98,156
Collection fees	1,960	-	-	3,206	-	5,166
Donated and internal use	145,178	4,762	-	-	-	149,940
Chemicals	-	105,162	496	-	31,267	136,925
Travel and training	587	868	1,304	-	-	2,759
Structures and improvements	173	427	-	-	-	600
Total Operating Expenses	5,515,366	1,037,459	498,256	387,274	67,661	7,506,016
Operating Income (Loss)	632,780	138,744	14,835	23,283	69,091	878,733
<b>Non-Operating Revenues (Expenses):</b>						
Materials sold	7,713	3,568	-	-	77	11,358
Interest earnings	3,705	10,630	1,392	2,481	601	18,809
Minnkota lease	91,771	-	-	-	-	91,771
Rent	1,210	1,000	100	-	-	2,310
Miscellaneous	8,647	7,595	(185)	3,637	866	20,560
Sale of fixed assets	55,055	1,231	-	-	-	56,286
Grant reimbursement	-	300,351	154,036	-	2,148	456,535
Cost of materials sold	(6,315)	(3,568)	-	-	-	(9,883)
FEMA flood expenses	(19)	-	(100)	-	-	(119)
Incentives	(2,350)	-	-	-	-	(2,350)
Interest expense	-	(50,805)	(11,081)	-	-	(61,886)
Total Non-Operating Revenues (Expense)	159,417	270,002	144,162	6,118	3,692	583,391
Income (Loss) Before Operating Transfers and contributions	792,197	408,746	158,997	29,401	72,783	1,462,124
Capital Contributions	94,901	-	-	-	-	94,901
Operating Transfers In	-	-	-	-	-	-
Operating Transfers (Out)	(707,750)	(81,000)	(6,000)	(27,500)	-	(822,250)
Net Income (Loss)	179,348	327,746	152,997	1,901	72,783	734,775
Net Position, January 1	3,422,205	8,979,181	2,348,570	332,168	66,139	15,148,263
Net Position, December 31	\$ 3,601,553	\$ 9,306,927	\$ 2,501,567	\$ 334,069	\$ 138,922	\$ 15,883,038

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business-type Activities Enterprise Funds						Governmental Activities
	Electric	Water	Wastewater	Sanitation	Pest Control	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash received from customers	\$ 6,263,927	\$ 1,163,607	\$ 511,453	\$ 409,275	\$ 137,111	\$ 8,485,373	\$ 170,758
Cash payments to suppliers	(5,110,261)	(739,319)	(220,893)	(385,300)	(65,812)	(6,521,585)	(133,871)
Cash paid to employees	(205,132)	(181,120)	(69,707)	-	-	(455,959)	(50,146)
Net cash flow from (to) operating activities	948,534	243,168	220,853	23,975	71,299	1,507,829	(13,259)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>							
Miscellaneous revenues (expenses)	100,657	9,826	(185)	3,637	3,091	117,026	5,622
Transfers to (from) other funds	(707,750)	(81,000)	(6,000)	(27,500)	-	(822,250)	37,250
Net cash flow from (to) non-capital financing activities	(607,093)	(71,174)	(6,185)	(23,863)	3,091	(705,224)	42,872
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Purchases of property and equipment	(240,360)	(538,163)	(403,888)	(800)	-	(1,183,211)	-
Proceeds from sale of fixed assets	55,055	-	-	-	-	55,055	-
Capital contributions	94,901	-	-	-	-	94,901	-
Proceeds from capital grant	-	685,229	103,076	-	(148)	788,157	-
Proceeds from long term borrowing	-	173,868	135,225	-	-	309,093	-
Principal paid on debt	-	(203,000)	(31,000)	-	-	(234,000)	-
Interest paid on debt	-	(49,888)	(10,456)	-	-	(60,344)	-
Net cash flow from (to) capital and related financing activities	(90,404)	68,046	(207,043)	(800)	(148)	(230,349)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Collections of notes receivable	26,000	-	-	-	-	26,000	-
Interest income	4,272	11,135	1,384	2,350	433	19,574	135
(Purchase) Sale of certificates of deposits	(50,146)	250,170	-	23,390	(49,800)	173,614	-
Net cash flow from (to) investing activities	(19,874)	261,305	1,384	25,740	(49,367)	219,188	135
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	231,163	501,345	9,009	25,052	24,875	791,444	29,748
<b>CASH AND CASH EQUIVALENTS, JANUARY 1, 2017</b>	78,137	513,184	163,336	29,070	18,837	802,564	28,944
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31, 2017</b>	\$ 309,300	\$ 1,014,529	\$ 172,345	\$ 54,122	\$ 43,712	\$ 1,594,008	\$ 58,692
Cash and cash equivalents are comprised of the following:							
Cash and cash equivalents	\$ 309,302	\$ 723,984	\$ 137,260	\$ 54,122	\$ 43,712	\$ 1,268,380	\$ 58,692
Restricted cash and cash equivalents	-	77,230	15,215	-	-	92,445	-
Restricted cash and cash equivalents	-	213,315	19,870	-	-	233,185	-
Total cash and cash equivalents on the Statement of Net Position	\$ 309,302	\$ 1,014,529	\$ 172,345	\$ 54,122	\$ 43,712	\$ 1,594,010	\$ 58,692
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Operating Income	\$ 632,780	\$ 138,744	\$ 14,835	\$ 23,283	\$ 69,091	\$ 878,733	\$ (29,695)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	196,956	264,524	136,917	835	1,791	601,023	13,474
Changes in assets and liabilities							
(Increase)/Decrease in Accounts receivable	(734)	(12,596)	(1,638)	(1,282)	359	(15,891)	(233)
(Increase)/Decrease in Inventory	9,624	(108)	268	-	-	9,784	792
(Increase)/Decrease in Prepaid expenses	5,671	(1,992)	(144)	(1)	52	3,586	(81)
(Increase)/Decrease in Deferred outflows of resources	(79,081)	(75,621)	(35,971)	-	-	(190,673)	(18,553)
Increase/(Decrease) in Accounts payable	(24,840)	(75,498)	53,594	1,140	6	(45,598)	2,294
Increase/(Decrease) in Customer deposits	116,515	(86,930)	-	-	-	29,585	-
Increase/(Decrease) in Deferred inflows of resources	(4,442)	(3,568)	(486)	-	-	(8,496)	(1,416)
Increase/(Decrease) in Net pension liability	96,085	96,213	53,478	-	-	245,776	20,159
Net cash provided (used) by operating activities	\$ 948,534	\$ 243,168	\$ 220,853	\$ 23,975	\$ 71,299	\$ 1,507,829	\$ (13,259)

See Notes to the Financial Statements



**CITY OF GRAFTON, NORTH DAKOTA**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**AS OF DECEMBER 31, 2017**

	<u><b>Agency Funds</b></u>			
	<u><b>Recreation</b></u>	<u><b>Library</b></u>	<u><b>Christian Unity Hospital</b></u>	<u><b>Total</b></u>
<b>ASSETS</b>				
Investments	\$ -	\$ -	\$ 161,175	\$ 161,175
Taxes receivable	1,056	1,706	-	2,762
Interest receivable	-	-	1,347	1,347
Due from other governments	2,863	4,694	-	7,557
TOTAL ASSETS	<u>\$ 3,919</u>	<u>\$ 6,400</u>	<u>\$ 162,522</u>	<u>\$ 172,841</u>
<b>LIABILITIES</b>				
Due to other entities	\$ 2,863	\$ 4,694	\$ 162,522	\$ 170,079
Unearned revenues	1,056	1,706	-	2,762
TOTAL LIABILITIES	<u>\$ 3,919</u>	<u>\$ 6,400</u>	<u>\$ 162,522</u>	<u>\$ 172,841</u>

See Notes to the Financial Statements

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

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

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

**Airport Authority**

The Airport Authority oversees the operation and maintenance of the airport. 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 Statements***

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

***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. As of 2016 there was a Legislative consolidation of mills and the general fund now includes the social security, advertising, planning and zoning, armory, building and recreation levies.

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, 2017**

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

***Fiduciary Funds***

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

Agency Funds

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

**Measurement Focus and Basis of Accounting**

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

*Measurement Focus*

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

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

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

**Cash and Investments**

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

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 1<sup>st</sup> of the year collectible. A 5% reduction is allowed if paid by February 15<sup>th</sup>. Penalty and interest are added March 1<sup>st</sup> unless the first half of the taxes have been paid. Additional penalties are added October 15<sup>th</sup> if taxes are not paid.

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**Inventories and Prepaid Expenses**

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

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

**Capital Assets**

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

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

Building and improvements	20 – 85 years
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, 2017**

**Long-Term Debt**

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

**Net Position**

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

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

**Fund Balances**

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

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

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

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

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

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

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

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, 2017**

**Significant Group Concentrations of Credit Risk**

As of December 31, 2017, 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.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

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

**Interest Rate Risk**

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

**Custodial Risk**

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, 2017**

**NOTE 3 - CAPITAL ASSETS**

Changes in capital assets for governmental activities for the year ended December 31, 2017 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities Capital Assets:				
Buildings and improvements	\$ 1,335,227	\$ -	\$ -	\$ 1,335,227
Vehicles and equipment	3,161,426	319,593	192,847	3,288,172
Infrastructure	8,874,211	85,673	-	8,959,884
Construction in progress	5,135,986	2,906,899	593,703	7,449,182
Construction in progress - Land	8,425	2,083,066	-	2,091,491
Total	<u>18,515,275</u>	<u>5,395,231</u>	<u>786,550</u>	<u>23,123,956</u>
Governmental Activities Accumulated Depreciation:				
Buildings and improvements	760,387	31,494	-	791,881
Vehicles and equipment	1,704,112	128,307	141,967	1,690,452
Infrastructure	1,096,310	196,447	-	1,292,757
Total	<u>3,560,809</u>	<u>356,248</u>	<u>141,967</u>	<u>3,775,090</u>
Net Capital Assets - Governmental Activities	<u>\$ 14,954,466</u>	<u>\$ 5,038,983</u>	<u>\$ 644,583</u>	<u>\$ 19,348,866</u>

Changes in capital assets for business-type activities for the year ended December 31, 2017 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities Capital Assets:				
Land	\$ 964,472	\$ -	\$ -	\$ 964,472
Buildings and improvements	2,894,524	7,014,315	-	9,908,839
Transmission system	21,382,407	955,459	-	22,337,866
Vehicles and equipment	1,096,272	195,353	7,553	1,284,072
Construction in progress	7,181,732	747,068	7,728,985	199,815
Total	<u>33,519,407</u>	<u>8,912,195</u>	<u>7,736,538</u>	<u>34,695,064</u>
Business-Type Activities Accumulated Depreciation:				
Buildings and improvements	2,115,481	34,853	-	2,150,334
Transmission system	15,099,763	497,101	-	15,596,864
Vehicles and equipment	801,626	69,069	7,553	863,142
Total	<u>18,016,870</u>	<u>601,023</u>	<u>7,553</u>	<u>18,610,340</u>
Net Capital Assets Business-Type Activities	<u>\$ 15,502,537</u>	<u>\$ 8,311,172</u>	<u>\$ 7,728,985</u>	<u>\$ 16,084,724</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

Changes in capital assets for component unit for the year ended December 31, 2017 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit Capital Assets:				
Buildings and improvements	\$ 2,419,237	\$ 32,691	\$ -	\$ 2,451,928
Construction in process	23,208	-	23,208	-
Vehicles and equipment	5,850	-	-	5,850
Total	<u>2,448,295</u>	<u>32,691</u>	<u>23,208</u>	<u>2,457,778</u>
Component Unit Accumulated Depreciation:				
Buildings and improvements	397,590	92,378	-	489,968
Vehicles and equipment	5,850	-	-	5,850
Total	<u>403,440</u>	<u>92,378</u>	<u>-</u>	<u>495,818</u>
Net Capital Assets - Component Unit	<u>\$ 2,044,855</u>	<u>\$ (59,687)</u>	<u>\$ 23,208</u>	<u>\$ 1,961,960</u>

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

Governmental Activities	
General Government	\$ 13,712
Public Safety	56,840
Highways and Streets	267,344
Component Units	92,378
Health and Recreation	<u>18,352</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 448,626</u>
Business-Type Activities	
Electric	\$ 196,956
Water	264,524
Wastewater	136,917
Sanitation	835
Pest Control	<u>1,791</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 601,023</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**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, 2017:

GOVERNMENTAL ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year
Refunding Improvement Bonds:							
\$3,500,000 of 2015	1.25% - 3.1%	\$ 3,120,000	\$ -	\$ (25,000)	\$ -	\$ 3,095,000	\$ 25,000
Bond Premium		38,380	-	-	(2,020)	36,360	-
\$405,000 of 2008B	3.15% - 3.7%	60,000	-	(40,000)	-	20,000	20,000
General Obligation Bonds 2012	.4%-1.4%	560,000	-	(90,000)	-	470,000	90,000
Sales Tax Revenue Bonds							
\$2,350,000 2008A	3.5% - 5.5%	1,985,000	-	(55,000)	-	1,930,000	55,000
Definitive Improvement 2017	1.50%	-	3,375,000	(3,374)	-	3,371,626	100,727
Compensated Absences		48,073	-	-	8,888	56,961	-
Other Debt:							
Due to Electric -General Fund Fire	0.00%	49,000	-	(24,500)	-	24,500	24,500
Net Pension Liability		998,092	-	-	672,985	1,671,077	-
		<u>\$ 6,858,545</u>	<u>\$ 3,375,000</u>	<u>\$ (237,874)</u>	<u>\$ 679,853</u>	<u>\$ 10,675,524</u>	<u>\$ 315,227</u>

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

Governmental Activities

\$405,000 Refunding Improvement				City of Grafton - Electric Fund		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 20,000	\$ 370	\$ 20,370	\$ 24,500	\$ -	\$ 24,500
\$2,350,000 Sales Tax Revenue Bonds				\$890,000 General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	65,000	89,825	154,825	100,000	700	100,700
2023-2027	380,000	390,458	770,458	-	-	-
2028-2032	480,000	278,395	758,395	-	-	-
2033-2037	620,000	116,738	736,738	-	-	-
2038-2042	145,000	15,675	160,675	-	-	-
	<u>\$ 1,930,000</u>	<u>\$ 1,277,313</u>	<u>\$ 3,207,313</u>	<u>\$ 470,000</u>	<u>\$ 14,921</u>	<u>\$ 484,921</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

	<u>\$3,500,000 Refunding Improvement 2015</u>			<u>2017 Definitive Warrant</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,000	\$ 81,808	\$ 106,808	\$ 100,727	\$ 50,625	\$ 151,352
2019	160,000	81,495	241,495	101,483	49,114	150,597
2020	160,000	79,495	239,495	102,244	47,592	149,836
2021	165,000	76,295	241,295	103,011	46,058	149,069
2022	170,000	73,295	243,295	103,783	44,513	148,296
2023-2027	905,000	306,600	1,211,600	530,706	198,979	729,685
2028-2032	1,040,000	168,400	1,208,400	550,912	158,574	709,486
2033-2037	470,000	22,010	492,010	571,883	116,633	688,516
2038-2042	-	-	-	593,653	73,092	666,745
2043-2047	-	-	-	613,224	27,550	640,774
	<u>\$ 3,095,000</u>	<u>\$ 889,398</u>	<u>\$ 3,984,398</u>	<u>\$ 3,371,626</u>	<u>\$ 812,730</u>	<u>\$ 4,184,356</u>

	<u>Combined Debt Payments Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 315,227	\$ 238,381	\$ 553,608
2019	411,483	232,699	644,182
2020	417,244	225,413	642,657
2021	428,011	216,803	644,814
2022	438,783	208,333	647,116
2023-2027	1,815,706	896,037	2,711,743
2028-2032	2,070,912	605,369	2,676,281
2033-2037	1,661,883	255,381	1,917,264
2038-2042	738,653	88,767	827,420
2043-2047	613,224	27,550	640,774
	<u>\$ 8,911,126</u>	<u>\$ 2,994,732</u>	<u>\$ 11,905,858</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

The following is a summary of changes in business-type activities long-term debt by individual issue for the year ended December 31, 2017:

BUSINESS-TYPE ACTIVITIES	Interest Rate	Beginning Balance	New Issues	Retired	Other	Ending Balance	Due within One Year
<u>Water</u>							
ND Public Finance Water Revenue Bonds	2.50%	\$ 100,000	\$ -	\$ (15,000)	\$ -	\$ 85,000	\$ 15,000
ND Public Finance	2.50%	480,000	-	(63,000)	-	417,000	65,000
ND Public Finance	2.00%	1,791,889	173,868	(125,000)	-	1,840,757	90,757
Net Pension Liability		192,566	-	-	96,214	288,780	-
		<u>\$ 2,564,455</u>	<u>\$ 173,868</u>	<u>\$ (203,000)</u>	<u>\$ 96,214</u>	<u>\$ 2,631,537</u>	<u>\$ 170,757</u>
<u>Wastewater</u>							
ND Public Finance-Clean Water Loan	2.00%	\$ 361,535	\$ 135,225	\$ (1,000)	\$ -	\$ 495,760	\$ 1,000
ND Public Finance-Sewer Revenue Bonds	2.50%	120,000	-	(30,000)	-	90,000	30,000
Net Pension Liability		72,180	-	-	53,477	125,657	-
		<u>\$ 553,715</u>	<u>\$ 135,225</u>	<u>\$ (31,000)</u>	<u>\$ 53,477</u>	<u>\$ 711,417</u>	<u>\$ 31,000</u>

The ND Public Finance loan in the amount of \$1,840,757 represents advances on a \$4,000,000 loan to finance a water improvement project.

The ND Public Finance loan in the amount of \$495,760 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 Public Finance			North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 15,000	\$ 2,125	\$ 17,125	\$ 90,757	\$ 36,729	\$ 127,486
2019	15,000	1,750	16,750	90,000	35,000	125,000
2020	15,000	1,375	16,375	95,000	33,200	128,200
2021	20,000	1,000	21,000	95,000	31,300	126,300
2022	20,000	500	20,500	95,000	29,400	124,400
2023-2027	-	-	-	520,000	117,200	637,200
2028-2032	-	-	-	595,000	62,200	657,200
2033-2037	-	-	-	260,000	7,800	267,800
	<u>\$ 85,000</u>	<u>\$ 6,750</u>	<u>\$ 91,750</u>	<u>\$ 1,840,757</u>	<u>\$ 352,829</u>	<u>\$ 2,193,586</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

	North Dakota Public Finance			Combined Debt Payments Business-Type Activities-Water		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 65,000	\$ 10,425	\$ 75,425	\$ 170,757	\$ 49,279	\$ 220,036
2019	67,000	8,800	75,800	172,000	45,550	217,550
2020	68,000	7,125	75,125	178,000	41,700	219,700
2021	70,000	5,425	75,425	185,000	37,725	222,725
2022	72,000	3,675	75,675	187,000	33,575	220,575
2023-2027	75,000	1,875	76,875	595,000	119,075	714,075
2028-2032	-	-	-	595,000	62,200	657,200
2033-2037	-	-	-	260,000	7,800	267,800
	<u>\$ 417,000</u>	<u>\$ 37,325</u>	<u>\$ 454,325</u>	<u>\$ 2,342,757</u>	<u>\$ 396,904</u>	<u>\$ 2,739,661</u>

	North Dakota Public Finance			\$150,000 North Dakota Public Finance		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 1,000	\$ 9,915	\$ 10,915	\$ 30,000	\$ 2,250	\$ 32,250
2019	1,000	9,895	10,895	30,000	1,500	31,500
2020	1,000	9,875	10,875	30,000	750	30,750
2021	42,760	9,855	52,615	-	-	-
2022	45,000	9,000	54,000	-	-	-
2023-2027	250,000	30,500	280,500	-	-	-
2028-2032	155,000	6,300	161,300	-	-	-
	<u>\$ 495,760</u>	<u>\$ 85,340</u>	<u>\$ 581,100</u>	<u>\$ 90,000</u>	<u>\$ 4,500</u>	<u>\$ 94,500</u>

	Combined Debt Payments Business-Type Activities-Sewer		
	Principal	Interest	Total
2018	\$ 31,000	\$ 12,165	\$ 43,165
2019	31,000	11,395	42,395
2020	31,000	10,625	41,625
2021	42,760	9,855	52,615
2022	45,000	9,000	54,000
2023-2027	250,000	30,500	280,500
2028-2032	155,000	6,300	161,300
	<u>\$ 585,760</u>	<u>\$ 89,840</u>	<u>\$ 675,600</u>



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**NOTE 5 - PENSION PLAN**

**North Dakota Public Employees' Retirement System (Main System)**

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

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

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

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

**Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). 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, 2017**

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

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

At December 31, 2017, the City reported a liability of \$2,394,389 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the City's proportion was 0.148967 percent which was a decrease of 0.002442 percent from its proportion measured at June 30, 2016.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

For the year ended December 31, 2017, the City recognized pension expense of \$188,927. At December 31, 2017, 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	\$ 14,232	\$ 11,666
Changes in actuarial assumptions	981,861	54,004
Difference between projected and actual investment earnings	32,203	-
Changes in proportion	20,308	51,337
Contributions paid to NDPERS subsequent to the measurement date	56,740	-
Total	<u>\$ 1,105,344</u>	<u>\$ 117,007</u>

\$56,740 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, 2018.

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>
2018	\$ 198,887
2019	243,073
2020	209,831
2021	182,432
2022	97,374

### Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

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

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

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%.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	31.00%	6.05%
International Equity	21.00%	6.70%
Private Equity	5.00%	10.20%
Domestic Fixed Income	17.00%	1.43%
International Fixed Inc.	5.00%	-0.45%
Global Real Assets	20.00%	5.16%
Cash Equivalents	1.00%	0.00%

### **Discount Rate**

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**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 6.44 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 (5.44 percent) or 1 percentage point higher (7.44 percent) than the current rate:

	1% Decrease in Discount Rate 5.44%	Discount Rate 6.44%	1% Increase in Discount Rate 7.44%
City's proportionate share of the NDPERS net pension liability:	\$ 3,250,456	\$ 2,394,389	\$ 1,682,176

**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, 2017, 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, 2017**

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 contracts with the engineer for the flood control project. In addition, the City awarded a construction contract in the amount of \$25,133,146 for construction related to the flood control project. The amount of total costs completed as of December 31, 2017 was \$9,468,783 for the flood control project.

**NOTE 8 - SCHEDULE OF TRANSFERS**

Transfers to General Fund	
Electric	\$ 670,500
Water	81,000
Wastewater	6,000
Sanitation	<u>27,500</u>
	<u>\$ 785,000</u>
 Transfers from Special Revenue Sales Tax	
Debt Service	\$ 145,237
Capital Projects	<u>3,614</u>
	<u>\$ 148,851</u>
 Transfer from Debt Service Fund to General Fund	<u>\$ 45,036</u>
 Transfer From Electric Fund	
Maintenance	\$ 37,250
General Fund	<u>670,500</u>
	<u>\$ 707,750</u>

The Council has adopted a policy to transfer surplus utility funds to the general fund each year to meet the annual budget. The transfers from the sales tax fund were to fund debt service payments. The transfer from the debt service fund to the general fund was to close the 2005-B fund.

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**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	Grafton Community Development Sales Tax	Flood Control	Other Governmental Funds	Total
<b>Fund Balances</b>					
<b>Nonspendable</b>					
Prepays	\$ 10,321	\$ -	\$ -	\$ -	\$ 10,321
Total nonspendable	10,321	-	-	-	10,321
<b>Restricted</b>					
Debt service	-	-	-	493,464	493,464
Flood control	-	-	1,621,170	-	1,621,170
Economic development	-	2,241,189	-	-	2,241,189
Community development	-	-	-	1,019	1,019
Cemetery	-	-	-	63,712	63,712
Lodging	-	-	-	46,302	46,302
Annual special assessment	-	-	-	24,165	24,165
Volunteer Fire Dept	-	-	-	579,564	579,564
Culture and recreation	-	-	-	168	168
Total restricted	-	2,241,189	1,621,170	1,208,394	5,070,753
<b>Committed</b>					
Street resurfacing	-	-	-	30,261	30,261
Total committed	-	-	-	30,261	30,261
<b>Assigned</b>					
Social Security	111,022	-	-	-	111,022
Advertising	19,004	-	-	-	19,004
Planning and zoning	55,318	-	-	-	55,318
Armory	82,101	-	-	-	82,101
Building improvements	189,789	-	-	-	189,789
Streets	459,780	-	-	-	459,780
Public safety	30,605	-	-	-	30,605
Health and welfare	6,060	-	-	-	6,060
General government	55,352	-	-	-	55,352
Total assigned	1,009,031	-	-	-	1,009,031
<b>Unassigned</b>	838,635	-	-	-	838,635
<b>Total Fund Balance</b>	<b>\$ 1,857,987</b>	<b>\$ 2,241,189</b>	<b>\$ 1,621,170</b>	<b>\$ 1,238,655</b>	<b>\$ 6,959,001</b>

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**NOTE 11 - PRIOR PERIOD ADJUSTMENT**

The prior period adjustment of \$426,355 to net position is the result of reclassifying the Volunteer Fire Department from a Discretely presented component unit to a blended component unit which is classified as a special revenue fund. In addition, the prior year fund balance for the Volunteer Fire Department has been restated \$ 128,796 to include additional cash accounts.

**NOTE 12 - 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. 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. 82, *Pension Issues – an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this



**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt was acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

### **NOTE 13 - SUBSEQUENT EVENTS**

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through June 1, 2018, which is the date these financial statements were available to be issued.

**CITY OF GRAFTON, NORTH DAKOTA**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 620,175	\$ 620,175	\$ 640,081	\$ 19,906
Special assessments	6,500	6,500	5,583	(917)
Licenses and permits	126,550	126,550	118,106	(8,444)
Intergovernmental	592,085	592,085	632,589	40,504
Charges for services	3,000	3,000	5,333	2,333
Fines and forfeits	54,000	54,000	57,090	3,090
Miscellaneous	38,795	126,617	147,417	20,800
TOTAL REVENUES	<u>1,441,105</u>	<u>1,528,927</u>	<u>1,606,199</u>	<u>77,272</u>
<b>EXPENDITURES</b>				
General government	514,050	514,050	604,103	(90,053)
Public safety	1,042,515	1,068,762	780,082	288,680
Highways and streets	563,300	590,085	548,992	41,093
Health and welfare	40,555	40,555	39,345	1,210
Other	63,695	68,695	45,378	23,317
Capital outlay	245,000	279,790	374,423	(94,633)
Debt service-principal	24,500	24,500	24,500	-
TOTAL EXPENDITURES	<u>2,493,615</u>	<u>2,586,437</u>	<u>2,416,823</u>	<u>169,614</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,052,510)	(1,057,510)	(810,624)	246,886
<b>OTHER SOURCES (USES)</b>				
Transfer from other funds	<u>785,000</u>	<u>785,000</u>	<u>830,036</u>	<u>45,036</u>
TOTAL OTHER SOURCES (USES)	<u>785,000</u>	<u>785,000</u>	<u>830,036</u>	<u>45,036</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (267,510)</u>	<u>\$ (272,510)</u>	19,412	<u>\$ 291,922</u>
FUND BALANCE - JANUARY 1			<u>1,838,575</u>	
FUND BALANCE - DECEMBER 31			<u>\$ 1,857,987</u>	

See Note to the Budgetary Comparison Schedules

**CITY OF GRAFTON, NORTH DAKOTA**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEVELOPMENT SALES TAX FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 940,000	\$ 940,000	\$ 821,777	\$ (118,223)
Special assessments	-	-	65,006	65,006
Intergovernmental	-	-	297	297
Miscellaneous	78,340	78,340	102,666	24,326
	<u>1,018,340</u>	<u>1,018,340</u>	<u>989,746</u>	<u>(28,594)</u>
<b>TOTAL REVENUES</b>				
	<u>1,018,340</u>	<u>1,018,340</u>	<u>989,746</u>	<u>(28,594)</u>
<b>EXPENDITURES</b>				
Other	691,120	691,120	528,037	163,083
<b>TOTAL EXPENDITURES</b>	<u>691,120</u>	<u>691,120</u>	<u>528,037</u>	<u>163,083</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	327,220	327,220	461,709	134,489
<b>OTHER SOURCES (USES)</b>				
Transfer to other funds	<u>(107,120)</u>	<u>(107,120)</u>	<u>(148,852)</u>	<u>(41,732)</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>\$ 220,100</u>	<u>\$ 220,100</u>	312,857	<u>\$ 92,757</u>
<b>FUND BALANCE - JANUARY 1</b>			<u>1,928,332</u>	
<b>FUND BALANCE - DECEMBER 31</b>			<u>\$ 2,241,189</u>	

See Note to the Budgetary Comparison Schedules

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULES**  
**DECEMBER 31, 2017**

**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 7.

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

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

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

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

For the Fiscal Year Ended 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
2017	0.148967%	\$ 2,394,389	\$ 1,520,716	157.45%	61.98%
2016	0.151409%	1,475,628	1,525,846	96.71%	70.46%
2015	0.146746%	997,849	1,307,327	76.33%	77.15%

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

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

See Note to the Required Supplementary Information

**CITY OF GRAFTON, NORTH DAKOTA**  
**SCHEDULE OF EMPLOYER 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
2017	\$ 112,789	\$ 112,789	\$ -	\$ 1,584,109	7.12%
2016	109,533	109,533	-	1,538,381	7.12%
2015	102,973	102,973	-	1,446,251	7.12%

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

See Note to the Required Supplementary Information

**CITY OF GRAFTON, NORTH DAKOTA**  
**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**

**NOTE 1 CHANGES OF ASSUMPTIONS**

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2017 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, 2017**

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Non major Governmental Funds</u>
<b>Assets</b>				
Cash	\$ 388,812	\$ 132,861	\$ 30,261	\$ 551,934
Investments	328,866	350,000	-	678,866
Taxes receivable	883	2,857	-	3,740
Special assessments receivable	-	160,188	-	160,188
Interest receivable	209	3,214	-	3,423
Due from other governments	<u>2,477</u>	<u>7,839</u>	<u>-</u>	<u>10,316</u>
Total Assets	<u>\$ 721,247</u>	<u>\$ 656,959</u>	<u>\$ 30,261</u>	<u>\$ 1,408,467</u>
<b>Liabilities</b>				
Accounts payable	\$ 5,434	\$ 450	\$ -	\$ 5,884
Total liabilities	<u>5,434</u>	<u>450</u>	<u>-</u>	<u>5,884</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue- property taxes	883	2,857	-	3,740
Uncertified special assessments	<u>-</u>	<u>160,188</u>	<u>-</u>	<u>160,188</u>
Total deferred inflows of resources	<u>883</u>	<u>163,045</u>	<u>-</u>	<u>163,928</u>
<b>Fund Balance</b>				
Restricted	714,930	493,464	-	1,208,394
Unrestricted				
Committed	<u>-</u>	<u>-</u>	<u>30,261</u>	<u>30,261</u>
Total fund balance	<u>714,930</u>	<u>493,464</u>	<u>30,261</u>	<u>1,238,655</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 721,247</u>	<u>\$ 656,959</u>	<u>\$ 30,261</u>	<u>\$ 1,408,467</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, 2017**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total Non major Governmental Funds</b>
<b>Revenues</b>				
Taxes	\$ 35,685	\$ 262,283	\$ -	\$ 297,968
Special assessments	-	83,163	-	83,163
Intergovernmental	996	3,199	-	4,195
Other	187,678	5,216	-	192,894
Total revenues	<u>224,359</u>	<u>353,861</u>	<u>-</u>	<u>578,220</u>
<b>Expenditures</b>				
Current				
General government	25,918	-	-	25,918
Public Safety	159,882	-	-	159,882
Other	-	64,830	3,414	68,244
Capital outlay	5,434		200	5,634
Debt Service:				
Principal	-	213,374	-	213,374
Interest	-	228,373	-	228,373
Total expenditures	<u>191,234</u>	<u>506,577</u>	<u>3,614</u>	<u>701,425</u>
Excess Revenues Over (Under) Expenditures	33,125	(152,716)	(3,614)	(123,205)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	145,237	3,614	148,851
Operating transfers (out)	-	(45,036)	-	(45,036)
Total other financing sources (uses)	<u>-</u>	<u>100,201</u>	<u>3,614</u>	<u>103,815</u>
Excess Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	<u>33,125</u>	<u>(52,515)</u>	<u>-</u>	<u>(19,390)</u>
Fund Balance - January 1, as originally reported	553,009	545,979	30,261	1,129,249
Prior Period Adjustment	<u>128,796</u>	<u>-</u>	<u>-</u>	<u>128,796</u>
Fund Balance, January 1, re-stated	<u>681,805</u>	<u>545,979</u>	<u>30,261</u>	<u>1,258,045</u>
Fund Balance - December 31	<u>\$ 714,930</u>	<u>\$ 493,464</u>	<u>\$ 30,261</u>	<u>\$ 1,238,655</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**AS OF DECEMBER 31, 2017**

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Volunteer Fire</u>	<u>Total</u>
<b>Assets</b>								
Cash	\$ 8,160	\$ 36,584	\$ 46,302	\$ 20,881	\$ 168	\$ 1,019	\$ 275,698	\$ 388,812
Investments	-	25,000	-	-	-	-	303,866	328,866
Taxes receivable	-	678	-	205	-	-	-	883
Interest receivable	-	209	-	-	-	-	-	209
Due from other governments	-	1,919	-	558	-	-	-	2,477
<b>Total Assets</b>	<u>\$ 8,160</u>	<u>\$ 64,390</u>	<u>\$ 46,302</u>	<u>\$ 21,644</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 579,564</u>	<u>\$ 721,247</u>
<b>Liabilities</b>								
Accounts payable	\$ -	\$ -	\$ -	\$ 5,434	\$ -	\$ -	\$ -	\$ 5,434
<b>Deferred Inflows of Resources</b>								
Unavailable revenue- property taxes	-	678	-	205	-	-	-	883
<b>Fund Balance</b>								
Restricted	8,160	63,712	46,302	16,005	168	1,019	579,564	714,930
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ 8,160</u>	<u>\$ 64,390</u>	<u>\$ 46,302</u>	<u>\$ 21,644</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 579,564</u>	<u>\$ 721,247</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, 2017**

	<u>Share of Special Assessment</u>	<u>Cemetery</u>	<u>Lodging Tax</u>	<u>Annual Special Assessment</u>	<u>Band</u>	<u>Community Development</u>	<u>Volunteer Fire</u>	<u>Total</u>
<b>Revenues</b>								
Taxes	\$ -	\$ 13,621	\$ 17,966	\$ 4,098	\$ -	\$ -	\$ -	\$ 35,685
Intergovernmental	-	766	-	230	-	-	-	996
Other	<u>62</u>	<u>2,971</u>	<u>233</u>	<u>117</u>	<u>-</u>	<u>-</u>	<u>184,295</u>	<u>187,678</u>
Total revenues	<u>62</u>	<u>17,358</u>	<u>18,199</u>	<u>4,445</u>	<u>-</u>	<u>-</u>	<u>184,295</u>	<u>224,359</u>
<b>Expenditures</b>								
Current								
General government	-	7,918	18,000	-	-	-	-	25,918
Public safety	-	-	-	-	-	-	159,882	159,882
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,434</u>
Total expenditures	<u>-</u>	<u>7,918</u>	<u>18,000</u>	<u>5,434</u>	<u>-</u>	<u>-</u>	<u>159,882</u>	<u>191,234</u>
Excess Revenues Over (Under)								
Expenditures	<u>62</u>	<u>9,440</u>	<u>199</u>	<u>(989)</u>	<u>-</u>	<u>-</u>	<u>24,413</u>	<u>33,125</u>
Fund Balance - January 1, as originally reported	8,098	54,272	46,103	16,994	168	1,019	426,355	553,009
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,796</u>	<u>128,796</u>
Net Position , January 1, re-stated	<u>8,098</u>	<u>54,272</u>	<u>46,103</u>	<u>16,994</u>	<u>168</u>	<u>1,019</u>	<u>555,151</u>	<u>681,805</u>
Fund Balance - December 31	<u>\$ 8,160</u>	<u>\$ 63,712</u>	<u>\$ 46,302</u>	<u>\$ 16,005</u>	<u>\$ 168</u>	<u>\$ 1,019</u>	<u>\$ 579,564</u>	<u>\$ 714,930</u>

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR DEBT SERVICE FUNDS**  
**AS OF DECEMBER 31, 2017**

	<b>2008-B</b>	<b>2008-A Sales Tax Revenue Bonds</b>	<b>2012 General Obligation</b>	<b>2015 Refunding Bond Sales Tax</b>	<b>Total</b>
<b>Assets</b>					
Cash	\$ 27,284	\$ 91,468	\$ 14,090	\$ 19	\$ 132,861
Investments	-	50,000	300,000	-	350,000
Taxes receivable	-	-	2,857	-	2,857
Special assessments receivable	20,427	-	139,761	-	160,188
Interest receivable	-	418	2,796	-	3,214
Due from other funds	-	-	-	-	-
Due from other governments	-	-	7,839	-	7,839
Total Assets	<u>\$ 47,711</u>	<u>\$ 141,886</u>	<u>\$ 467,343</u>	<u>\$ 19</u>	<u>\$ 656,959</u>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ 450	\$ -	\$ 450
<b>Deferred Inflows of Resources</b>					
Unavailable revenue-property taxes			2,857	-	2,857
Uncertified special assessments	20,427	-	139,761	-	160,188
Total Deferred Inflows of Resources	<u>20,427</u>	<u>-</u>	<u>142,618</u>	<u>-</u>	<u>163,045</u>
<b>Fund Balance</b>					
Restricted	27,284	141,886	324,275	19	493,464
Total fund balance	<u>27,284</u>	<u>141,886</u>	<u>324,275</u>	<u>19</u>	<u>493,464</u>
Total Deferred Inflows of Resources and Fund Balance	<u>\$ 47,711</u>	<u>\$ 141,886</u>	<u>\$ 467,343</u>	<u>\$ 19</u>	<u>\$ 656,959</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, 2017**

	Refunding Bonds		2017	2008-A	2012	2015	
	2005-B	2008-B	Definitive Warrant	Sales Tax Revenue Bonds	General Obligation	Refunding Bond Sales Tax	Total
<b>Revenues:</b>							
Real estate taxes	\$ -	\$ -	\$ -	\$ -	\$ 56,839	\$ -	\$ 56,839
Sales taxes	-	-	-	205,444	-	-	205,444
Special assessments	14,044	36,521	-	-	32,598	-	83,163
Intergovernmental	-	-	-	-	3,199	-	3,199
Other	159	221	-	1,789	3,028	19	5,216
Total revenues	14,203	36,742	-	207,233	95,664	19	353,861
<b>Expenditures:</b>							
Other	-	-	-	64,830	-	-	64,830
Debt Service:							
Principal	-	40,000	3,374	55,000	90,000	25,000	213,374
Interest	-	1,930	34,293	103,125	6,455	82,570	228,373
Total expenditures	-	41,930	37,667	222,955	96,455	107,570	506,577
Excess of Revenues Over (Under) Expenditures Before Other Financing Sources	14,203	(5,188)	(37,667)	(15,722)	(791)	(107,551)	(152,716)
<b>Other Financing Sources (Uses)</b>							
Operating transfer in	-	-	37,667	-	-	107,570	145,237
Operating transfer out	(45,036)	-	-	-	-	-	(45,036)
Total Other Financing Sources (uses)	(45,036)	-	37,667	-	-	107,570	100,201
Excess of Revenues over (under) Expenditures	(30,833)	(5,188)	-	(15,722)	(791)	19	(52,515)
Fund Balance (Deficit), January 1	30,833	32,472	-	157,608	325,066	-	545,979
Fund Balance (Deficit), December 31	\$ -	\$ 27,284	\$ -	\$ 141,886	\$ 324,275	\$ 19	\$ 493,464

**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**AS OF DECEMBER 31, 2017**

	<u>Urban Roads</u>	<u>Lessard Avenue</u>	<u>Total</u>
<b>Assets:</b>			
Cash	\$ 30,261	\$ -	\$ 30,261
<b>TOTAL ASSETS</b>	<u>\$ 30,261</u>	<u>\$ -</u>	<u>\$ 30,261</u>
 <b>Liabilities:</b>			
Total liabilities	\$ -	\$ -	\$ -
 <b>Fund Balance:</b>			
Committed	<u>30,261</u>	<u>-</u>	<u>30,261</u>
Total fund balance	<u>30,261</u>	<u>-</u>	<u>30,261</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u>\$ 30,261</u>	 <u>\$ -</u>	 <u>\$ 30,261</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, 2017**

	<b>Urban Roads</b>	<b>Lessard Avenue</b>	<b>Total</b>
<b>Revenues:</b>			
Total revenues	\$ -	\$ -	\$ -
<b>Expenditures</b>			
Professional fees	-	3,414	3,414
Capital outlay	-	200	200
Total expenditures	-	3,614	3,614
Revenues Over (Under)			
Expenditures Before			
Other Financing			
Sources	-	(3,614)	(3,614)
Other Financing Sources (Uses)			
Transfers in	-	3,614	3,614
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, 2017**

	<u><b>Airport Authority</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 69,930
Investments	101,060
Receivables:	
Grants	13,837
Accounts	-
Taxes	1,405
Interest	497
Due from other governments	3,848
Prepaid insurance	838
<b>TOTAL ASSETS</b>	<u><u>\$ 191,415</u></u>
 <b>LIABILITIES</b>	
Liabilities	
Accounts payable	<u>\$ 10,809</u>
Total liabilities	<u>10,809</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue-property taxes	<u>1,405</u>
 <b>FUND BALANCE</b>	
Nonspendable	-
Restricted	179,201
Unrestricted	-
Committed	-
Total fund balance	<u><u>179,201</u></u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u><u>\$ 191,415</u></u>



**CITY OF GRAFTON, NORTH DAKOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**COMPONENT UNITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u><b>Airport Authority</b></u>
<b>Revenues</b>	
Taxes	\$ 27,927
Intergovernmental	209,923
Other	<u>43,167</u>
Total revenues	<u>281,017</u>
 <b>Expenditures</b>	
Current	
Other	236,254
Capital Outlay	<u>9,483</u>
Total expenditures	<u>245,737</u>
 Excess Revenues and Other Financing Sources Over (Under) Expenditures	   35,280
 Fund Balance, January 1	 <u>143,921</u>
 Fund Balance, December 31	 <u><u>\$ 179,201</u></u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component 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, 2017, 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, 2018.

**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. 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 that reads "Brady Martz". The signature is written in a cursive, flowing style.

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

June 1, 2018