

**CITY OF RUGBY  
RUGBY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Rugby  
Rugby, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rugby, North Dakota, as of December 31, 2015, and the respective changes in modified cash basis financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the modified cash basis of accounting described in Note 2.

### **Basis of Accounting**

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

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rugby's basic financial statements. The Schedule of City's Contributions to NDPERS Retirement Fund and Schedule of City's and Non-Employer Proportionate Share of the Net Pension Liability are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of City's Contributions to NDPERS Retirement Fund and Schedule of City's and Non-Employer Proportionate Share of the Net Pension Liability have 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 them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of the City of Rugby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rugby's internal control over financial reporting and compliance.



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

December 14, 2016

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rugby Job Development Authority
<b>ASSETS</b>				
Cash and equivalents	\$ 2,418,936	\$ 88,555	\$ 2,507,491	\$ 398,834
Investments	382,312	39,556	421,868	172,804
Land held for resale	-	-	-	510,187
Notes receivable	-	-	-	3,556
Internal balances	22,022	(22,022)	-	-
Capital assets				
Land, improvements, and construction in progress not being depreciated	237,332	52,420	289,752	-
Buildings and infrastructure, net of depreciation	8,216,997	3,153,299	11,370,296	705,464
Equipment and vehicles, net of depreciation	656,452	192,382	848,834	2,285
Total assets	11,934,051	3,504,190	15,438,241	1,793,130
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	-	-	-	8,500
Retainage payable	28,000	-	28,000	-
Due within one year				
Bonds and notes	470,010	57,935	527,945	32,408
Long-term liabilities				
Due in more than one year				
Bonds and notes	5,659,255	471,251	6,130,506	381,366
Total liabilities	6,157,265	529,186	6,686,451	422,274
<b>NET POSITION</b>				
Net investment in capital assets	2,981,516	2,868,915	5,850,431	324,570
Restricted for:				
Capital projects	1,734,139	-	1,734,139	-
Debt service	669,020	-	669,020	-
Other funds	150,535	-	150,535	-
Unrestricted	241,576	106,089	347,665	1,046,286
Total net position	\$ 5,776,786	\$ 2,975,004	\$ 8,751,790	\$ 1,370,856

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Job Development Authority	
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities								
General government	\$ 1,093,870	\$ 86,996	\$ -	\$ -	\$ (1,006,874)	\$ -	\$ (1,006,874)	
Public safety	442,114	-	-	51,120	(390,994)	-	(390,994)	
Public works	315,778	89,879	-	173,648	(52,251)	-	(52,251)	
Urban and economic development	18,507	-	-	-	(18,507)	-	(18,507)	
Culture and recreation	162,462	39,060	-	-	(123,402)	-	(123,402)	
Interest and other charges	211,961	-	-	-	(211,961)	-	(211,961)	
Total governmental activities	<u>2,244,692</u>	<u>215,935</u>	<u>-</u>	<u>224,768</u>	<u>(1,803,989)</u>	<u>-</u>	<u>(1,803,989)</u>	
Business-type activities								
Water operating	597,273	569,847	-	-	-	(27,426)	(27,426)	
Sanitation sewer operations	111,194	117,830	-	-	-	6,636	6,636	
Garbage	299,758	295,123	-	-	-	(4,635)	(4,635)	
Total business-type activities	<u>1,008,225</u>	<u>982,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,425)</u>	<u>(25,425)</u>	
Total primary government	<u>\$ 3,252,917</u>	<u>\$ 1,198,735</u>	<u>\$ -</u>	<u>\$ 224,768</u>	<u>\$ (1,803,989)</u>	<u>\$ (25,425)</u>	<u>\$ (1,829,414)</u>	
<b>Component Units</b>								
Job Development Authority	\$ 112,434	\$ 58,200	\$ 1,750	\$ -			\$ (52,484)	
Total component units	<u>\$ 112,434</u>	<u>\$ 58,200</u>	<u>\$ 1,750</u>	<u>\$ -</u>			<u>\$ (52,484)</u>	
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 508,940	\$ -	\$ 508,940	\$ -
Property taxes, levied for specific purposes					372,782	-	372,782	-
Municipal highway tax					202,838	-	202,838	-
State aid distribution					329,513	-	329,513	-
Sales tax collections					489,682	-	489,682	263,875
Other taxes					10,146	-	10,146	-
Unrestricted investment earnings					2,751	205	2,956	14,054
Other revenue					135,186	-	135,186	7,392
Transfers					(140,000)	140,000	-	-
Total general revenues, special items, and transfers					<u>1,911,838</u>	<u>140,205</u>	<u>2,052,043</u>	<u>285,321</u>
Change in net position					107,849	114,780	222,629	232,837
Net position - beginning					5,668,937	2,860,224	8,529,161	1,138,019
Net position - ending					<u>\$ 5,776,786</u>	<u>\$ 2,975,004</u>	<u>\$ 8,751,790</u>	<u>\$ 1,370,856</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS –**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2015**

	General Fund	District 2009-1 Debt Service	Fire Reserve	Infrastructure Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 247,554	\$ 363,980	\$ 28,000	\$ 1,396,313	\$ 383,089	\$ 2,418,936
Investments	-	204,697	-	139,897	37,718	382,312
Due from other funds	22,022	-	-	-	-	22,022
Total assets	<u>\$ 269,576</u>	<u>\$ 568,677</u>	<u>\$ 28,000</u>	<u>\$ 1,536,210</u>	<u>\$ 420,807</u>	<u>\$ 2,823,270</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	-	568,677	28,000	1,536,210	420,807	2,553,694
Unassigned	269,576	-	-	-	-	269,576
Total fund balances	<u>269,576</u>	<u>568,677</u>	<u>28,000</u>	<u>1,536,210</u>	<u>420,807</u>	<u>2,823,270</u>
Total liabilities and fund balances	<u>\$ 269,576</u>	<u>\$ 568,677</u>	<u>\$ 28,000</u>	<u>\$ 1,536,210</u>	<u>\$ 420,807</u>	<u>\$ 2,823,270</u>

See Notes To The Financial Statements



**CITY OF RUGBY, NORTH DAKOTA**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION -**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2015**

Total fund balance, governmental funds		\$ 2,823,270
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital Assets	\$ 12,980,468		
Accumulated Depreciation	<u>(3,869,687)</u>		9,110,781

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

Bonds and notes payable, net of unamortized bond discounts	(6,129,265)		
Retainage payable	<u>(28,000)</u>		<u>(6,157,265)</u>

Net assets of governmental activities in the Statement of Net Position		<u>\$ 5,776,786</u>
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See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	District 2009-1 Debt Service	Fire Reserve	Infrastructure Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes and special assessments	\$ 275,290	\$ 175,890	\$ 56,345	\$ -	\$ 374,197	\$ 881,722
Fees and fines	14,575	-	-	-	11,959	26,534
Licenses and permits	15,530	-	-	-	-	15,530
Intergovernmental	339,659	-	-	489,682	202,838	1,032,179
Charges for services	69,633	-	-	71,920	32,318	173,871
Investment earnings	1,501	563	46	542	99	2,751
Other revenue	43,174	51,833	51,120	173,648	40,179	359,954
Total revenues	<u>759,362</u>	<u>228,286</u>	<u>107,511</u>	<u>735,792</u>	<u>661,590</u>	<u>2,492,541</u>
<b>Expenditures</b>						
Current:						
General government	248,114	-	-	-	288,349	536,463
Public safety	429,106	-	5,041	-	-	434,147
Public works	6,025	-	-	27,608	260,418	294,051
Urban and economic development	-	-	-	-	18,507	18,507
Culture and recreation	133,639	-	-	-	28,824	162,463
Debt service:						
Principal	-	290,000	-	-	125,000	415,000
Interest and other charges	-	159,743	-	-	47,951	207,694
Capital outlay	105,907	-	384,452	341,061	65,903	897,323
Total expenditures	<u>922,791</u>	<u>449,743</u>	<u>389,493</u>	<u>368,669</u>	<u>834,952</u>	<u>2,965,648</u>
Excess (deficiency) of revenues over expenditures	<u>(163,429)</u>	<u>(221,457)</u>	<u>(281,982)</u>	<u>367,123</u>	<u>(173,362)</u>	<u>(473,107)</u>
<b>Other financing sources (uses)</b>						
Proceeds from long-term debt	30,000	-	400,000	-	-	430,000
Bond discount	-	-	(8,000)	-	-	(8,000)
Transfers in	53,165	202,184	-	-	238,873	494,222
Transfers out	(126,317)	-	(27,339)	(326,510)	(154,056)	(634,222)
Total other financing sources and uses	<u>(43,152)</u>	<u>202,184</u>	<u>364,661</u>	<u>(326,510)</u>	<u>84,817</u>	<u>282,000</u>
Net change in fund balances	(206,581)	(19,273)	82,679	40,613	(88,545)	(191,107)
Fund balance - beginning	476,157	587,950	(54,679)	1,495,597	509,352	3,014,377
Fund balances - ending	<u>\$ 269,576</u>	<u>\$ 568,677</u>	<u>\$ 28,000</u>	<u>\$ 1,536,210</u>	<u>\$ 420,807</u>	<u>\$ 2,823,270</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balances - total governmental funds: \$ (191,107)

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

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

Capital outlays	897,323
Depreciation expense	(587,099)

Proceeds from long-term debt provides financial resources to the governmental funds but the issuance increases long-term liabilities in the statement of net position.	(430,000)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	415,000
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Governmental funds report the effects of premiums, discounts, and similar items when debt is first issued. In contrast, these amounts are deferred and amortized in the Statement of Activities.

Bond discounts	8,000
Amortization	(4,268)
	8,000
	(4,268)

Change in net assets of governmental activities	\$ 107,849
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See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original and Final Budget	Actual Amounts, Modified Cash Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>			
Taxes and special assessments	\$ 266,476	\$ 275,290	\$ 8,814
Fees and fines	18,000	14,575	(3,425)
Licenses and permits	13,350	15,530	2,180
Intergovernmental	340,636	339,659	(977)
Charges for services	65,674	69,633	3,959
Investment earnings	1,800	1,501	(299)
Other revenue	31,750	43,174	11,424
Total revenues	<u>737,686</u>	<u>759,362</u>	<u>21,676</u>
<b>Expenditures</b>			
Current:			
General government	253,557	248,115	5,442
Public safety	522,967	429,106	93,861
Public works	5,000	6,025	(1,025)
Culture and recreation	124,107	133,639	(9,532)
Capital outlay	69,281	105,907	(36,626)
Total expenditures	<u>974,912</u>	<u>922,792</u>	<u>52,120</u>
Excess (deficiency) of revenues over expenditures	<u>(237,226)</u>	<u>(163,430)</u>	<u>73,796</u>
<b>Other financing sources (uses)</b>			
Proceeds from long-term debt	30,000	30,000	-
Transfers in	-	53,165	53,165
Transfers out	-	(126,317)	(126,317)
Total other financing sources and uses	<u>30,000</u>	<u>(43,152)</u>	<u>(73,152)</u>
Net change in fund balances	(207,226)	(206,582)	644
Fund balances - beginning	476,157	476,157	-
Fund balances - ending	<u>\$ 268,931</u>	<u>\$ 269,575</u>	<u>\$ 644</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2015**

	<u>Water Operating</u>	<u>Garbage</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 78,544	\$ 10,011	\$ -	\$ 88,555
Investments	-	12,356	27,200	39,556
Total current assets	<u>78,544</u>	<u>22,367</u>	<u>27,200</u>	<u>128,111</u>
Non-current assets:				
Capital assets:				
Land and improvements	52,420	-	-	52,420
Buildings and infrastructure	4,447,396	-	14,592	4,461,988
Equipment and vehicles	247,338	-	156,237	403,575
Less accumulated depreciation	(1,472,964)	-	(46,918)	(1,519,882)
Total non-current assets	<u>3,274,190</u>	<u>-</u>	<u>123,911</u>	<u>3,398,101</u>
Total assets	<u>3,352,734</u>	<u>22,367</u>	<u>151,111</u>	<u>3,526,212</u>
<b>LIABILITIES</b>				
Current liabilities:				
Due to other funds	-	-	22,022	22,022
Bonds, notes and loans payable	57,935	-	-	57,935
Non-current liabilities:				
Bonds, notes and loans payable	<u>471,251</u>	<u>-</u>	<u>-</u>	<u>471,251</u>
Total liabilities	<u>529,186</u>	<u>-</u>	<u>22,022</u>	<u>551,208</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,745,004	-	123,911	2,868,915
Unrestricted	<u>78,544</u>	<u>22,367</u>	<u>5,178</u>	<u>106,089</u>
Total net position	<u>\$ 2,823,548</u>	<u>\$ 22,367</u>	<u>\$ 129,089</u>	<u>\$ 2,975,004</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Water Operating</u>	<u>Garbage</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Revenues				
Charges for services	\$ 569,847	\$ 295,123	\$ 117,640	\$ 982,610
Other revenue	-	-	190	190
Total operating revenues	<u>569,847</u>	<u>295,123</u>	<u>117,830</u>	<u>982,800</u>
Operating expenses				
Water operating	470,178	-	-	470,178
Sanitary sewer	-	-	95,170	95,170
Garbage	-	299,758	-	299,758
Depreciation	122,868	-	16,024	138,892
Total operating expenses	<u>593,046</u>	<u>299,758</u>	<u>111,194</u>	<u>1,003,998</u>
Operating income (loss)	<u>(23,199)</u>	<u>(4,635)</u>	<u>6,636</u>	<u>(21,198)</u>
Non-operating revenues (expenses)				
Interest and investment revenue	122	15	68	205
Interest expense	(4,227)	-	-	(4,227)
Total non-operating revenues (expenses)	<u>(4,105)</u>	<u>15</u>	<u>68</u>	<u>(4,022)</u>
Income before contributions and transfers	<u>(27,304)</u>	<u>(4,620)</u>	<u>6,704</u>	<u>(25,220)</u>
Transfers in	152,231	-	10,000	162,231
Transfers out	(22,231)	-	-	(22,231)
Total transfers	<u>130,000</u>	<u>-</u>	<u>10,000</u>	<u>140,000</u>
Change in net position	102,696	(4,620)	16,704	114,780
Total net position - beginning	2,720,852	26,987	112,385	2,860,224
Total net position - ending	<u>\$ 2,823,548</u>	<u>\$ 22,367</u>	<u>\$ 129,089</u>	<u>\$ 2,975,004</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Garbage	Other Enterprise Funds	Total
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 569,847	\$ 295,123	\$ 117,640	\$ 982,610
Miscellaneous	-	-	190	190
Payments to suppliers and employees	(470,178)	(299,758)	(95,170)	(865,106)
Net cash provided (used) by operating activities	<u>99,669</u>	<u>(4,635)</u>	<u>22,660</u>	<u>117,694</u>
<b>Cash flows from non-capital financing activities</b>				
Change in due to/from other funds	(44,126)	-	22,022	(22,104)
Net cash transfers	130,000	-	10,000	140,000
Net cash provided by noncapital and related financing activities	<u>85,874</u>	<u>-</u>	<u>32,022</u>	<u>117,896</u>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from issuance of long-term debt	513,686	-	-	513,686
Repayment of long-term debt	(35,236)	-	-	(35,236)
Interest paid on long-term debt	(6,660)	-	-	(6,660)
Purchase of capital assets	(685,351)	-	(67,693)	(753,044)
Net cash used by capital and related financing activities	<u>(213,561)</u>	<u>-</u>	<u>(67,693)</u>	<u>(281,254)</u>
<b>Cash flows from investing activities</b>				
Interest from investments	122	15	68	205
Purchase of investments	-	(15)	(68)	(83)
Sale of investments	94,231	-	-	94,231
Net cash provided (used) by investing activities	<u>94,353</u>	<u>-</u>	<u>-</u>	<u>94,353</u>
Net change in cash and cash equivalents	66,335	(4,635)	(13,011)	48,689
Cash and cash equivalents, January 1	12,209	14,646	13,011	39,866
Cash and cash equivalents, December 31	<u>\$ 78,544</u>	<u>\$ 10,011</u>	<u>\$ -</u>	<u>\$ 88,555</u>
<b>Reconciliation of operating income to net cash from operating activities:</b>				
Operating income	\$ (23,199)	\$ (4,635)	\$ 6,636	\$ (21,198)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	122,868	-	16,024	138,892
Net cash provided (used) by operating activities	<u>\$ 99,669</u>	<u>\$ (4,635)</u>	<u>\$ 22,660</u>	<u>\$ 117,694</u>

See Notes To The Financial Statements

**CITY OF RUGBY, NORTH DAKOTA**  
**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**  
**MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2015**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 187
Total assets	<u>\$ 187</u>
<b>LIABILITIES</b>	
Due to other governments	\$ 187
Total liabilities	<u>\$ 187</u>

See Notes To The Financial Statements



**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2015**

**NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

**Reporting Entity**

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

**Rugby Job Development Authority (JDA)**

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

**Government-wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

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

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

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

**Fund Accounting**

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

*Governmental Funds*

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

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

Special revenue funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City does not have any major funds that are reported as a special revenue fund.

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

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

*Fire reserve* – This capital project fund is used to account for the state taxes and private contributions dedicated to the construction of a new fire hall.

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

*District 2009-1 debt service* – This fund is used to account for the accumulation of resources for and the payment of, principal, interest and related costs on the street improvement project above.

*Proprietary Funds*

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

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

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

*Fiduciary Funds (not included in government-wide statements)*

Fiduciary funds reporting focuses on net position and changes in net position. The City's only fiduciary funds are agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Measurement Focus and Basis of Accounting**

*Measurement Focus*

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City of Rugby's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

*Basis of Accounting*

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

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

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

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

**Budgets and Budgetary Accounting**

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

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

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

**Cash and Cash Equivalents**

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

**Investments**

Investments are recorded at fair value. North Dakota state statute authorizes Cities to invest their surplus funds in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed, c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) obligations of the state. As of December 31, 2015, all of the City's investments consisted of certificates of deposit with local financial institutions that did not meet the criteria of cash and cash equivalents.

**Land Held for Resale**

The Rugby JDA currently owns 48 lots that are being developed for resale.

**Capital Assets**

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

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

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

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

**Premiums/Discount**

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

**Long-Term Debt**

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

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

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

**Net Position**

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

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

**Fund Balance Classifications**

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

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

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

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

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

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

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

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

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





**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

3) Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.

4) Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

*Government-wide financial statements*

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

1) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.

2) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

**Use of estimates**

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

**NOTE 3 CUSTODIAL CREDIT RISK**

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

The City does have a deposit policy. The City maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC or NCUA up to \$250,000 at each institution. At December 31, 2015, the City bank balance totaled \$3,007,520. Of the bank balance, \$627,074 is covered by the FDIC or NCUA insurance coverage and the remainder is covered by pledged collateral.

The JDA maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At December 31, 2015, the JDA bank balance totaled \$569,139. Of the bank balance, \$547,521 is covered by FDIC insurance and the remainder is covered by pledged collateral.

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

**NOTE 4 PROPERTY TAXES**

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

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

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

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2015</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 237,332	\$ -	\$ -	\$ 237,332
Construction in progress	<u>567,257</u>	<u>-</u>	<u>567,257</u>	<u>-</u>
Total capital assets not being depreciated	<u>804,589</u>	<u>-</u>	<u>567,257</u>	<u>237,332</u>
Capital assets being depreciated				
Buildings and infrastructure	10,106,057	1,369,814	-	11,475,871
Machines and vehicles	<u>1,151,333</u>	<u>153,212</u>	<u>37,280</u>	<u>1,267,265</u>
Total capital assets being depreciated	<u>11,257,390</u>	<u>1,523,026</u>	<u>37,280</u>	<u>12,743,136</u>
Less accumulated depreciation:				
Buildings and infrastructure	2,760,874	498,000	-	3,258,874
Machines and vehicles	<u>528,548</u>	<u>89,099</u>	<u>6,834</u>	<u>610,813</u>
Total accumulated depreciation	<u>3,289,422</u>	<u>587,099</u>	<u>6,834</u>	<u>3,869,687</u>
Total capital assets being depreciated, net	<u>7,967,968</u>	<u>935,927</u>	<u>30,446</u>	<u>8,873,449</u>
<b>Governmental capital assets, net</b>	<u>\$ 8,772,557</u>	<u>\$ 935,927</u>	<u>\$ 597,703</u>	<u>\$ 9,110,781</u>

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2015</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 52,420	\$ -	\$ -	\$ 52,420
Construction in progress	124,700	-	124,700	-
Total capital assets not being depreciated	<u>177,120</u>	<u>-</u>	<u>124,700</u>	<u>52,420</u>
Capital assets being depreciated				
Buildings and infrastructure	3,637,345	824,643	-	4,461,988
Machines and vehicles	350,475	53,100	-	403,575
Total capital assets being depreciated	<u>3,987,820</u>	<u>877,743</u>	<u>-</u>	<u>4,865,563</u>
Less accumulated depreciation:				
Buildings and infrastructure	1,209,611	99,078	-	1,308,689
Machines and vehicles	171,379	39,814	-	211,193
Total accumulated depreciation	<u>1,380,990</u>	<u>138,892</u>	<u>-</u>	<u>1,519,882</u>
Total capital assets being depreciated, net	<u>2,606,830</u>	<u>738,851</u>	<u>-</u>	<u>3,345,681</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 2,783,950</u>	<u>\$ 738,851</u>	<u>\$ 124,700</u>	<u>\$ 3,398,101</u>
	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2015</u>
<b>Component Unit, JDA</b>				
Capital assets being depreciated				
Buildings and infrastructure	\$ 804,610	\$ -	\$ -	\$ 804,610
Equipment and fixtures	3,996	-	-	3,996
Total capital assets being depreciated	<u>808,606</u>	<u>-</u>	<u>-</u>	<u>808,606</u>
Less accumulated depreciation:				
Buildings and infrastructure	79,031	20,115	-	99,146
Equipment and fixtures	1,077	634	-	1,711
Total accumulated depreciation	<u>80,108</u>	<u>20,749</u>	<u>-</u>	<u>100,857</u>
Total capital assets being depreciated, net	<u>728,498</u>	<u>(20,749)</u>	<u>-</u>	<u>707,749</u>
<b>Component unit capital assets, net</b>	<u>\$ 728,498</u>	<u>\$ (20,749)</u>	<u>\$ -</u>	<u>\$ 707,749</u>

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2015**

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

Governmental Activities:	
General government	\$ 557,404
Public safety	7,967
Public works	21,728
Total depreciation expense for governmental activities	<u>\$ 587,099</u>
Business-type Activities:	
Water operating	\$ 122,868
Sewer operating	16,024
Total depreciation expense for business-type activities	<u>\$ 138,892</u>
Component Unit:	<u>\$ 20,749</u>

**NOTE 6 NOTES AND BONDS PAYABLE**

The following is a summary of long-term debt of the City of Rugby for the year ended December 31, 2015:

<u>Governmental activities:</u>	Year-End Balance
Refunding Improvement Bonds of 2009 (Build America Bonds) The bonds carry interest rates of 2.0% - 5.0% and are scheduled to be fully repaid on May 1, 2024.	\$ 3,125,000
Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033.	1,407,089
Refunding Improvement Bonds of 2013 The bonds carry interest rates of 0.35% - 3.25% and are scheduled to be fully repaid on May 1, 2033.	1,207,911
General Obligation Fire Station Bonds of 2015. The bonds carry interest rates of 1.40% - 3.00% and are scheduled to be fully repaid on May 1, 2025.	400,000
Police Vehicle Note. The note carries an interest rate of 3.00% and is scheduled to be fully repaid on April 1, 2018.	<u>30,000</u>
Total Notes and Bonds Payable- Governmental Funds Before Bond Discounts	6,170,000
Less: Bond discount, net of amortization of \$25,277	<u>40,735</u>
Total Notes and Bonds Payable- Governmental Funds	<u>\$ 6,129,265</u>

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

<u>Business-type activities:</u>	Year-End Balance
Water Revenue Bonds of 2011. The bonds carry an interest rate of 3.60% and are scheduled to be fully retired on June 15, 2016.	\$ 17,934
Water Revenue Bonds of 2015. The bonds carry interest rates of 2.00% - 4.00% and are scheduled to be fully retired on June 1, 2025.	<u>465,000</u>
Total Notes and Bonds Payable - Proprietary Funds Before Bond Premiums	482,934
Add: Bond premium, net of amortization of \$2,434	<u>46,252</u>
Total Notes and Bonds Payable - Enterprise Funds	<u><u>\$ 529,186</u></u>
<u>Component unit:</u>	Year-End Balance
Bremer Bank note. The note carries an interest rate of 7.0% and is scheduled to be fully repaid on January 1, 2026.	\$ 271,297
Rural Development Finance Corporation note. The note carries an interest rate of 1.0% and is scheduled to be fully repaid on November 23, 2021.	30,595
Souris Basin IRP note. The note carries an interest rate of 4.0% and is scheduled to be fully repaid on March 1, 2026.	<u>111,882</u>
Total Notes Payable - Component Unit	<u><u>\$ 413,774</u></u>

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

The annual payment requirements on the above debt as of December 31, 2015 are as follows:

Year Ending December 31	<u>Governmental Activities</u>	
	<u>Bonds and Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 470,010	\$ 206,589
2017	479,892	191,252
2018	490,098	175,866
2019	500,000	158,641
2020	515,000	139,852
2021-2025	2,420,000	377,469
2026-2030	775,000	126,547
2031-2035	520,000	25,675
	<u>\$ 6,170,000</u>	<u>\$ 1,401,891</u>

Year Ending December 31	<u>Business-type Activities</u>	
	<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 57,934	\$ 17,391
2017	40,000	16,200
2018	40,000	14,800
2019	45,000	13,100
2020	45,000	11,525
2021-2025	255,000	30,675
	<u>\$ 482,934</u>	<u>\$ 17,391</u>

Year Ending December 31	<u>Component Unit</u>	
	<u>Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 32,408	\$ 23,306
2017	34,812	21,440
2018	36,744	19,509
2019	38,802	17,451
2020	40,957	15,295
2021-2025	221,812	38,339
2026-2030	8,239	53
	<u>\$ 413,774</u>	<u>\$ 135,393</u>

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2015**

The following is a summary of the activity in long-term liabilities for the year ended December 31, 2015:

	Balance 1/1/2015	Additions	Reductions	Balance 12/31/2015	Due Within One Year
<i>Governmental activities:</i>					
Refunding Improvement Bonds of 2009	\$ 3,415,000	\$ -	\$ (290,000)	\$ 3,125,000	\$ 300,000
Refunding Improvement Bonds of 2013	1,474,349	-	(67,260)	1,407,089	67,260
Refunding Improvement Bonds of 2013	1,265,651	-	(57,740)	1,207,911	57,740
General Obligation Fire Station Bonds of 2015	-	400,000	-	400,000	35,000
Vehicle Note	-	30,000	-	30,000	10,010
	<u>\$ 6,155,000</u>	<u>\$ 430,000</u>	<u>\$ (415,000)</u>	<u>\$ 6,170,000</u>	<u>\$ 470,010</u>
<i>Business-type activities:</i>					
Water Revenue Bonds 2011	\$ 53,170	\$ -	\$ (35,236)	\$ 17,934	\$ 17,934
Water Revenue Bonds 2015	-	465,000	-	465,000	40,000
	<u>\$ 53,170</u>	<u>\$ 465,000</u>	<u>\$ (35,236)</u>	<u>\$ 482,934</u>	<u>\$ 57,934</u>
<i>Component unit:</i>					
Bremer Bank Note	\$ 288,810	\$ -	\$ (17,513)	\$ 271,297	\$ 19,044
Rural Development Finance Corporation Note	35,519	-	(4,924)	30,595	4,973
Souris Basin IRP Note	120,380	-	(8,498)	111,882	8,391
	<u>\$ 444,709</u>	<u>\$ -</u>	<u>\$ (30,935)</u>	<u>\$ 413,774</u>	<u>\$ 32,408</u>

**NOTE 7 CONDUIT DEBT OBLIGATIONS**

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

**Special Facility Revenue Bonds**

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

Health Care Facility Revenue Bonds (Good Samaritan Hospital Association Project), Series 2013 – The \$1,215,000 Series 2013 Bonds, issued September 1, 2013, are special, limited obligations of the City, payable solely from certain project payments to be made by the Heart of America Medical Center. As of December 31, 2015, the amount outstanding was approximately \$987,031.

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2015**

**NOTE 8 FUND BALANCE**

**Classifications**

At December 31, 2015, a summary of the governmental fund balance classifications are as follows:

	District 2009-1		Infrastructure	Other	Total
	<u>Debt Service</u>	<u>Fire Reserve</u>	<u>Maintenance</u>	<u>Governmental</u>	<u>Governmental</u>
			<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Restricted for:					
Capital Projects	\$ -	\$ 28,000	\$ 1,536,210	\$ 169,929	\$ 1,734,139
Debt Service	568,677	-	-	100,343	669,020
Snow Removal	-	-	-	18,189	18,189
Flood Control 1-1985	-	-	-	24,352	24,352
Economic Developer Director	-	-	-	22,009	22,009
Highways and Streets	-	-	-	85,985	85,985
	<u>\$ 568,677</u>	<u>\$ 28,000</u>	<u>\$ 1,536,210</u>	<u>\$ 420,807</u>	<u>\$ 2,553,694</u>

**Minimum Fund Balance Policy**

The City has not formally adopted a fund balance policy.

**NOTE 9 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of December 31, 2015 is as follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Sanitation Sewer Operations	<u>\$ 22,022</u>

The interfund balance in Sanitation Sewer Operations is to cover operating cash shortages during the year.



**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

Interfund transfers at December 31, 2015 were as follows:

	Governmental Funds	Proprietary Funds	Total
Transfers in	\$ 494,222	\$ 162,231	\$ 656,453
Transfers out	(634,222)	(22,231)	(656,453)
	\$ (140,000)	\$ 140,000	\$ -

The following is a reconciliation between transfers in and out as reported in the basic financial statements for the year ended December 31, 2015:

Transfer to	Transfer from	Amount
Advertising	General Fund	\$ 409
Planning/Zoning	General Fund	3,550
Weed Control	General Fund	1,751
NDIRF & Workers Comp	General Fund	607
Capital Equipment Fund	Recreation	24,404
Capital Equipment Fund	General Fund	90,000
Building Reserve	Armory Operating and Maintenance	60,000
Series 2015 GO Fire Station		
Bonds Debt Sinking Fund	Fire Reserve	27,339
District 2013-2 Debt Service	Infrastructure Maintenance	24,326
General Fund	Special Assessment Deficiency	17,501
General Fund	Armory Operating and Maintenance	20,404
General Fund	District 2006-1 Street Improvement	4,440
General Fund	Economic Developer Director	1,217
General Fund	Planning/Zoning	1,181
General Fund	Social Security & Oasis	8,422
District 2009-1 Debt Service	Infrastructure Maintenance	202,184
Sanitation Sewer Operations	Capital Equipment Fund	10,000
Water Operating	Water Plant Imp/NAWS Project	22,231
Water Operating	Infrastructure Maintenance	100,000
Water Operating	General Fund	30,000
Special Assessment Deficiency	Public Buildings	3,572
District 1-2003 Street Improvement	District 2-2003	2,915
		\$ 656,453

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

**NOTE 10 RISK MANAGEMENT**

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

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

**NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

The following note is required under accounting principles generally accepted in the United States of America. Because the City follows the modified cash basis of accounting, this note is included for informational purposes only. As a result of the City's basis of accounting, the net pension liability, deferred outflows of resources, and deferred inflows of resources mentioned below are not recorded in the City's financial statements.

Substantially all employees of the City are required by state law to belong to pension plans administered by the North Dakota Public Employees' Retirement System (NDPERS), which is administered on a statewide basis.

Disclosures relating to this plan follow:

**North Dakota Public Employees' Retirement System**

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

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

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

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

**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). 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 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.

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

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2015**

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

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Plan members are required to contribute 6.00% of their annual covered salary. The City is required to contribute 9.26% of the employees' salary which consists of 7.12% for employee retirement, 1.14% for the retiree health benefits fund, and 1.00% of the member assessments which the City has agreed to pay in lieu of a salary increase.

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

At December 31, 2015, the City's unreported liability for its proportionate share of the net pension liability was \$387,073. The net pension liability was measured as of July 1, 2015, 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 relative to the covered payroll of all participating employers. At July 1, 2015, the City's proportion was 0.056924%.

For the year ended December 31, 2015, the City's pension expense was \$33,145. At December 31, 2015, the City's unreported deferred outflows of resources and deferred inflows of resources related to pensions was from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,229	\$ -
Changes in actuarial assumptions	-	34,486
Difference between projected and actual investment earnings	-	8,171
Changes in proportion	2,259	20,952
Contributions paid to NDPERS subsequent to the measurement date	28,598	-
Total	\$ 42,086	\$ 63,609

For the plan, \$28,598 of deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date would reduce the unreported net pension liability in the year ending June 30, 2016.

Other amounts unreported as deferred outflows of resources and deferred inflows of resources under U.S. GAAP related to pensions would be recognized in pension expense as follows:

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

Year ending June 30:	Pension Expense Amount
2016	\$ (14,233)
2017	(14,233)
2018	(14,233)
2019	2,651
2020	(10,073)

**Actuarial Assumptions**

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.55%
International Fixed Inc.	5.00%	0.90%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

**CITY OF RUGBY, NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2015**

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

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

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
City's proportionate share of the NDPERS net pension liability:	\$ 593,558	\$ 387,073	\$ 218,132

**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 12 NEW ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

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

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

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

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

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of

**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

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.

**NOTE 13 COMMITMENTS**

The City has a commitment associated with its NAWS contract with the North Dakota State Water Commission. Under the terms of the contract, the City is required to remit (on a quarterly basis) fifteen cents per each thousand gallons of water to the Commission's OM&R fund. The current contract expires February 23, 2038. As of December 31, 2015, the City remitted a total of \$93,966 to the Commission.

In 2012, the City entered into an agreement with HACTC Housing to pay \$65/day per prisoner sentenced from the City of Rugby. The City makes monthly payments in proportion to the services rendered. Since the agreement was entered into, the City has paid \$32,612 for prisoner housing to HACTC.

In 2012, the City entered into an agreement with Interstate Engineering to prepare a comprehensive land use plan. The payments to Interstate Engineering for this project are not to exceed \$85,000. As of December 31, 2015, the City has made payments totaling \$57,335.

In 2012, the City agreed to contribute \$6,000 annually to Pierce County to help pay for a loan used to install an elevator at the Heart of America library. As of December 31, 2015, the City has made payments totaling \$12,000.

In 2013, the City signed a contract with Vanguard Appraisal to assess the City property. The estimated cost of the contract is approximately \$201,000 and is to be completed by January of 2016. As of December 31, 2015, the City has paid \$104,158 on the contract.



**CITY OF RUGBY, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2015

**NOTE 14 CONTINGENCIES**

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

**NOTE 15 JOINT VENTURES**

**Rugby Volunteer Fire Department**

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

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

**Heart of America Library**

Under the authorization of state statutes, the City joined Pierce County to operate the Heart of America Library. The public library will be governed by a Joint Library Board, which is comprised of four members appointed by the City, four members appointed by Pierce County, and one additional member from each governing board. The operating and capital expenses are funded by a 3.65 mill contribution from Pierce County and a 4 mill contribution from the City. Other contributions include amounts from the state library fund, donations, and used book sales. The City shall cover all additional expenses not covered by these shares of funds.

Complete financial information can be obtained from Kimberly Morgan, Library Director, 201 3<sup>rd</sup> Street SW, Rugby, ND 58368

**NOTE 16 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through December 14, 2016, which is the date these financial statements were available to be issued.

**CITY OF RUGBY, NORTH DAKOTA**  
**SCHEDULE OF CITY'S CONTRIBUTIONS TO NDPERS RETIREMENT FUND**  
**LAST TEN YEARS**

<u>Year Ended December 31</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 51,071	\$ 57,254	\$ (6,183)	\$ 618,293	9.26%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31. Information for the prior years is not available.

**CITY OF RUGBY, NORTH DAKOTA**  
**SCHEDULE OF CITY'S AND NON-EMPLOYER PROPORTIONATE SHARE OF THE NET**  
**PENSION LIABILITY**  
**LAST TEN YEARS**

Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District'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
2015	0.0569%	\$ 387,073	\$ 507,127	76.33%	77.15%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous year. Information for the prior years is not available.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the City Council  
City of Rugby  
Rugby, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Rugby, North Dakota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Rugby's basic financial statements and have issued our report thereon dated December 14, 2016.

**Internal Control Over Financial Reporting**

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

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

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

We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Rugby's financial statements are free 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Responses to Findings**

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

### **Purpose of this Report**

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



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

December 14, 2016

**CITY OF RUGBY, NORTH DAKOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

**Findings Relating to Financial Statements**

**2015-001** *Financial Statement Preparation and Journal Entries*

**Criteria**

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with the modified cash basis of accounting.

**Condition**

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

**Cause**

The City does not have the internal expertise needed to handle all aspects of external financial reporting.

**Effect**

The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

**Recommendation**

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

**Views of responsible officials and planned corrective actions**

Due to the small size of the City, it is not cost effective for the City to properly address this control deficiency.

**CITY OF RUGBY, NORTH DAKOTA**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2015

**2015-002** *Segregation of Duties*

**Criteria**

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

**Condition**

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

**Cause**

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

**Effect**

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

**Recommendation**

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

**Views of responsible officials and planned corrective actions**

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