

**CITY OF CROSBY  
CROSBY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position – Cash Basis	4
Statement of Activities – Cash Basis	5
Balance Sheet – Cash Basis – Governmental Funds	6
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis – Governmental Funds	7
Statement of Net Position – Cash Basis – Proprietary Funds	8
Statement of Receipts, Disbursements, and Changes in Fund Net Position – Cash Basis – Proprietary Funds	9
Statement of Cash Flows – Cash Basis – Proprietary Funds	10
Notes to the Financial Statements	11
<b>SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – Cash Basis – General Fund	25
Budgetary Comparison Schedule – Cash Basis – Municipal Highway Fund	26
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	27
Schedule of Audit Findings and Responses	29



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the City Commission  
City of Crosby  
Crosby, North Dakota

### Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crosby as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Crosby's 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 cash basis of accounting as described in Note 1, this includes determining that the cash basis of accounting is an acceptable basis for presentation 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 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 from material misstatement.

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

### **Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Unit	Adverse
General Fund	Unmodified
Municipal Highway Fund	Unmodified
City Sales Tax Fund	Unmodified
Oil and Gas Fund	Unmodified
Water, Sewer, Treatment Plant Fund	Unmodified
Landfill Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### **Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit**

Management has not included the financial of information of the Crosby Housing Authority in the City's financial statements. Accounting principles require the financial information of the Crosby Housing Authority to be presented as a discretely presented component unit. The amount by which this departure would affect the assets, net position, revenues, and expenses of the aggregate discretely presented component unit has not been determined as no such financial information was received from the Crosby Housing Authority.

### **Adverse Opinion**

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregately Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the cash basis financial position of the City of Crosby, as of December 31, 2017, or the changes in cash basis financial position thereof for the year then ended.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crosby, as of December 31, 2017, and the respective changes in cash basis financial position, where applicable, cash flows thereof for the year then ended in conformity with the cash basis of accounting as described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crosby's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules 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 August 14, 2018 on our consideration of the City of Crosby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Crosby's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Crosby's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

August 14, 2018

**CITY OF CROSBY**  
**STATEMENT OF NET POSITION – CASH BASIS**  
**DECEMBER 31, 2017**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	<u>\$ 3,726,008</u>	<u>\$ 975,167</u>	<u>\$ 4,701,175</u>
<b>NET POSITION</b>			
Restricted for:			
Economic development	652,979	-	652,979
Emergency	24,388	-	24,388
Unrestricted	<u>3,048,641</u>	<u>975,167</u>	<u>4,023,808</u>
Total net position	<u>\$ 3,726,008</u>	<u>\$ 975,167</u>	<u>\$ 4,701,175</u>

See Notes to the Financial Statements

**CITY OF CROSBY**  
**STATEMENT OF ACTIVITIES – CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
Governmental activities:							
General government	\$ 2,845,979	\$ 16,284	\$ -	\$ -	\$(2,829,695)	\$ -	\$(2,829,695)
Public safety	265,030	-	-	-	(265,030)	-	(265,030)
Highways and streets	738,760	-	-	-	(738,760)	-	(738,760)
Culture and recreation	30,000	-	-	-	(30,000)	-	(30,000)
Economic development	491,726	-	-	-	(491,726)	-	(491,726)
Capital outlay	27,352	-	-	-	(27,352)	-	(27,352)
Total governmental activities	<u>4,398,847</u>	<u>16,284</u>	<u>-</u>	<u>-</u>	<u>(4,382,563)</u>	<u>-</u>	<u>(4,382,563)</u>
Business-type activities:							
General government	86,360	59,182	-	-	-	(27,178)	(27,178)
Water	608,601	418,446	-	-	-	(190,155)	(190,155)
Sewer	69,865	97,128	-	-	-	27,263	27,263
Treatment plant	10,548	-	-	-	-	(10,548)	(10,548)
Landfill	252,028	215,508	-	-	-	(36,520)	(36,520)
Tree	6,707	5,402	-	-	-	(1,305)	(1,305)
Total business-type activities	<u>1,034,109</u>	<u>795,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(238,443)</u>	<u>(238,443)</u>
Total primary government	<u>\$ 5,432,956</u>	<u>\$ 811,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,382,563)</u>	<u>(238,443)</u>	<u>(4,621,006)</u>
General receipts:							
Taxes:							
Property taxes					147,267	-	147,267
Cigarette tax					3,078	-	3,078
Sales taxes					573,669	-	573,669
Highway tax					116,758	-	116,758
Oil and gas tax					1,494,695	-	1,494,695
State aid					95,440	-	95,440
Miscellaneous					60,219	-	60,219
Total general receipts					<u>2,491,126</u>	<u>-</u>	<u>2,491,126</u>
Change in net position					(1,891,437)	(238,443)	(2,129,880)
Net position - beginning					<u>5,617,445</u>	<u>1,213,610</u>	<u>6,831,055</u>
Net position - ending					<u>\$ 3,726,008</u>	<u>\$ 975,167</u>	<u>\$ 4,701,175</u>

See Notes to the Financial Statements

**CITY OF CROSBY**  
**BALANCE SHEET – CASH BASIS – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

	General	Municipal Highway	City Sales Tax	Oil & Gas	Nonmajor Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,849,878	\$ -	\$ 629,616	\$ -	\$ 246,514	\$ 3,726,008
Due from other funds	712,901	-	-	-	-	712,901
Total assets	<u>\$ 3,562,779</u>	<u>\$ -</u>	<u>\$ 629,616</u>	<u>\$ -</u>	<u>\$ 246,514</u>	<u>\$ 4,438,909</u>
<b>LIABILITIES</b>						
Due to other funds	<u>\$ -</u>	<u>\$ 92,487</u>	<u>\$ -</u>	<u>\$ 616,964</u>	<u>\$ 3,450</u>	<u>\$ 712,901</u>
<b>FUND BALANCES</b>						
Restricted	-	-	629,616	-	47,751	677,367
Assigned	-	-	-	-	198,763	198,763
Unassigned	3,562,779	(92,487)	-	(616,964)	(3,450)	2,849,878
Total fund balances (deficit)	<u>3,562,779</u>	<u>(92,487)</u>	<u>629,616</u>	<u>(616,964)</u>	<u>243,064</u>	<u>3,726,008</u>
Total liabilities and fund balances	<u>\$ 3,562,779</u>	<u>\$ -</u>	<u>\$ 629,616</u>	<u>\$ -</u>	<u>\$ 246,514</u>	<u>\$ 4,438,909</u>

See Notes to the Financial Statements



**CITY OF CROSBY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES – CASH BASIS – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Municipal Highway</u>	<u>City Sales Tax</u>	<u>Oil &amp; Gas</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>RECEIPTS</b>						
Taxes	\$ 66,587	\$ -	\$ -	\$ -	\$ 80,680	\$ 147,267
Sales taxes	-	-	573,669	-	-	573,669
Licenses and permits	16,284	-	-	-	-	16,284
Intergovernmental	1,593,213	116,758	-	-	-	1,709,971
Fines and forfeits	1,476	-	-	-	-	1,476
Miscellaneous	52,210	-	5,733	-	800	58,743
Total receipts	<u>1,729,770</u>	<u>116,758</u>	<u>579,402</u>	<u>-</u>	<u>81,480</u>	<u>2,507,410</u>
<b>DISBURSEMENTS</b>						
Current:						
General government	2,841,392	-	-	-	4,587	2,845,979
Public safety	265,030	-	-	-	-	265,030
Highways and streets	553,800	184,960	-	-	-	738,760
Culture and recreation	30,000	-	-	-	-	30,000
Economic development	-	-	462,256	-	29,470	491,726
Capital outlay	27,352	-	-	-	-	27,352
Total disbursements	<u>3,717,574</u>	<u>184,960</u>	<u>462,256</u>	<u>-</u>	<u>34,057</u>	<u>4,398,847</u>
Excess of receipts over (under) disbursements	(1,987,804)	(68,202)	117,146	-	47,423	(1,891,437)
Fund balances - beginning	5,550,583	(24,285)	512,470	(616,964)	195,641	5,617,445
Fund balances - ending	<u>\$ 3,562,779</u>	<u>\$ (92,487)</u>	<u>\$ 629,616</u>	<u>\$ (616,964)</u>	<u>\$ 243,064</u>	<u>\$ 3,726,008</u>

See Notes to the Financial Statements

**CITY OF CROSBY**  
**STATEMENT OF NET POSITION – CASH BASIS – PROPRIETARY FUNDS**  
**DECEMBER 31, 2017**

	Business-type Activities - Proprietary Funds			Total
	Water, Sewer, Treatment Plant	Landfill	Nonmajor Proprietary Funds	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 975,167	\$ -	\$ -	\$ 975,167
Due from other funds	260,500	-	-	260,500
Total assets	\$ 1,235,667	\$ -	\$ -	\$ 1,235,667
<b>LIABILITIES</b>				
Due to other funds	\$ -	\$ 249,022	\$ 11,478	\$ 260,500
<b>NET POSITION</b>				
Unrestricted	1,235,667	(249,022)	(11,478)	975,167
Total liabilities and net position	\$ 1,235,667	\$ -	\$ -	\$ 1,235,667

See Notes to the Financial Statements

**CITY OF CROSBY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET POSITION – CASH BASIS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business-type Activities - Proprietary Funds			
	Water, Sewer, Treatment Plant	Landfill	Nonmajor Proprietary Funds	Total
<b>OPERATING RECEIPTS</b>				
Charges for sales and services				
Water, sewer, treatment plant operations	\$ 574,756	\$ -	\$ -	\$ 574,756
Landfill operations	-	215,508	-	215,508
Tree operations	-	-	5,402	5,402
Total operating receipts	<u>574,756</u>	<u>215,508</u>	<u>5,402</u>	<u>795,666</u>
<b>OPERATING DISBURSEMENTS</b>				
General government	86,360	-	-	86,360
Water	608,601	-	-	608,601
Sewer	69,865	-	-	69,865
Treatment plant	10,548	-	-	10,548
Landfill	-	252,028	-	252,028
Tree	-	-	6,707	6,707
Total operating disbursements	<u>775,374</u>	<u>252,028</u>	<u>6,707</u>	<u>1,034,109</u>
Change in net position	(200,618)	(36,520)	(1,305)	(238,443)
Net position - beginning	<u>1,436,285</u>	<u>(212,502)</u>	<u>(10,173)</u>	<u>1,213,610</u>
Net position - ending	<u>\$ 1,235,667</u>	<u>\$ (249,022)</u>	<u>\$ (11,478)</u>	<u>\$ 975,167</u>

See Notes to the Financial Statements

**CITY OF CROSBY**  
**STATEMENT OF CASH FLOWS – CASH BASIS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business-type Activities - Proprietary Funds			Total
	Water, Sewer, Treatment Plant	Landfill	Nonmajor Proprietary Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 574,756	\$ 215,508	\$ 5,402	\$ 795,666
Payments to suppliers	(693,384)	(252,028)	(6,707)	(952,119)
Payments to employees	(81,990)	-	-	(81,990)
Net cash provided (used) by operating activities	<u>(200,618)</u>	<u>(36,520)</u>	<u>(1,305)</u>	<u>(238,443)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund disbursements	(37,825)	-	-	(37,825)
Interfund receipts	-	36,520	1,305	37,825
Net cash provided (used) by noncapital and related financing activities	<u>(37,825)</u>	<u>36,520</u>	<u>1,305</u>	<u>-</u>
Net change in cash and cash equivalents	(238,443)	-	-	(238,443)
Cash and cash equivalents, January 1	<u>1,213,610</u>	<u>-</u>	<u>-</u>	<u>1,213,610</u>
Cash and cash equivalents, December 31	<u>\$ 975,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 975,167</u>

See Notes to the Financial Statements

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

The City of Crosby, North Dakota operates under a City Council form of government. The accounting policy of the City of Crosby is to maintain the accounting records on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City does not maintain capital asset records or related debt for the governmental and business-type activities. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

As discussed further in the "Measurement Focus" and "Basis of Accounting" sections in Note 1, these financial statements are presented on a cash basis of accounting. The basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**Financial Reporting Entity**

The accompanying financial statements present the activities of the City of Crosby. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. Based upon the application of these criteria, the Crosby Housing Authority qualifies as a component unit of the City. See the 'Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit' on page 2 of the audit report in regards to the component unit not being included in the City's financial statements.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government of the City of Crosby. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

**CITY OF CROSBY**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017

**Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category-governmental and proprietary- are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

*General Fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Municipal Highway Fund.* This fund is used to account for money received to be used for street and highway upkeep and repairs and the related expenditures made.

*City Sales Tax Fund.* This fund is used to account for money received on sales tax collected within the City based on ordinances in effect.

*Oil & Gas Fund.* This fund is used to account for money received and expenses incurred in relation to the Oil and Gas Impact grant received from the North Dakota Department of Trust Lands.

The City reports the following major enterprise funds:

*Water, Sewer, Treatment Plant Fund.* This fund is used to account for customer receipts for water, sewer, and treatment plant fees and operating expenditures for water, sewer, and treatment plant services.

*Landfill Fund.* This fund is used to account for customer receipts for landfill fees and operating expenditures for landfill services.

**Measurement Focus and Basis of Accounting**

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

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined below.

**CITY OF CROSBY**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017

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

- a) All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available expendable financial resources during a given period. These funds use fund balance as their measure of available expendable financial resources at the end of the period.
- b) The proprietary funds utilize an “economic resources” measurement focus. 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 non-current, financial, or non-financial) associated with their activities are reported on a cash basis. Proprietary fund equity is classified as net position.

### **Basis of Accounting**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The City’s financial statements are prepared under the cash basis of accounting.

In the government-wide statements of net position and statement of activities and the fund financial statements, both governmental and business-like activities are presented using the cash basis of accounting. This basis recognizes assets and net position/fund equity, revenues/receipts, and expenditures/expenses/disbursements when they result from cash transactions 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 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.

### **Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits.

**CITY OF CROSBY**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017

**Fund Balance Classifications**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Commission—the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Commission removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes but are neither restricted nor committed. The City Commission and City Auditor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the City’s preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

The City does not have a minimum fund balance policy.

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.



**CITY OF CROSBY**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. However, since the statements are prepared on a cash basis, management does not consider there to be any significant estimates.

**NOTE 2 LEGAL COMPLIANCE - BUDGETS**

Budgetary Information:

The City Commission adopts an annual budget on a basis consistent with the cash basis of accounting for the general fund, each special revenue fund and each debt service fund of the municipality. No budget is legally adopted for the City Sales Tax Fund or Oil & Gas Fund. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- On or before September 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing which is to be held after September 7 but before October 7, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

Budget Amendments

The City's governing board did not amend the budgets during the year ended December 31, 2017.

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the General Fund by \$1,378,092 during the year ended December 31, 2017. No remedial action is anticipated or required by the City regarding these excess expenditures.

**NOTE 3 DEPOSITS**

In accordance with North Dakota Statutes, the City maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, irrevocable standby letters of credit issued by federal home loan banks of a rating of AA or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body, and bonds issued by another state of the United States or such other securities approved by the banking board.

The City maintains cash on deposit at a financial institution. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2017, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and authorized collateral through local financial institutions. \$4,221,321 of the City's deposits are covered by pledged securities held in the City's name. The total securities pledged exceed 110% of the uninsured balance.

Credit Risk:

The City may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct 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 the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

As of December 31, 2017, the City had no investments.

Concentration of Credit Risk:

The City does not have a limit on the amount the City may invest in any one issuer. The City does not have an investment policy that specifically addresses credit risk.

**NOTE 4 PROPERTY TAXES**

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

**NOTE 5 DUE TO/DUE FROM OTHER FUNDS**

The due to and due from other funds consist of cash overdrafts. They are not expected to be repaid in the next year. The due to and due from other funds are as follows as of December 31, 2017:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
<b>Governmental Funds</b>		
General	\$ 712,901	\$ -
Municipal Highway	-	92,487
Oil & Gas	-	616,964
<b>Nonmajor Governmental Funds</b>	-	3,450
<b>Proprietary Funds</b>		
Water, Sewer, Treatment Plant	260,500	-
Landfill	-	249,022
<b>Nonmajor Proprietary Funds</b>	-	11,478
Total all funds	<u>\$ 973,401</u>	<u>\$ 973,401</u>

**CITY OF CROSBY**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017

**NOTE 6 DEFICIT BALANCES**

The following funds were in a deficit position at December 31, 2017:

<b>Governmental Funds</b>	
Municipal Highway	\$ 92,487
Oil & Gas	616,964
Cemetery	3,450
<b>Proprietary Funds</b>	
Landfill	249,022
Tree Board	11,478

The deficits will be alleviated by tax collections, fee collections, grant proceeds, or transfers from the general fund.

**NOTE 7 PENSION PLAN**

The City participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan. 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. The plan provides retirement, disability, and death benefits. The cost to administer the plan is financed through contributions and investment earnings of the plan.

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

***Pension Benefits***

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

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

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.

***Member and Employer Contributions***

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

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

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

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

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

At December 31, 2017, if City of Crosby were to report on the full accrual basis, a liability of \$298,384 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Employer's proportion was 0.018564%, which was a decrease of 0.001756% from its proportionate share measured as of June 30, 2016. There was no net pension liability or deferred inflows or outflows of resources reported on the City's financial statements as they are reporting on the cash basis.

***Actuarial assumptions***

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

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

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

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

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

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

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

***Discount rate***

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

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

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

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

**NOTE 8 RISK MANAGEMENT**

The City of Crosby is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

In 1986, the state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Crosby pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability.

The City of Crosby also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$1,544,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Crosby has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance for its full-time employees.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**NOTE 9 FUND BALANCES**

At December 31, 2017, a summary of the governmental fund balance classifications is as follows:

	General	Municipal Highway	City Sales Tax	Oil & Gas	Nonmajor Governmental Funds	Total
Restricted for:						
Economic development	\$ -	\$ -	\$ 629,616	\$ -	\$ 23,363	\$ 652,979
Emergency	-	-	-	-	24,388	24,388
Assigned for:						
Capital improvements	-	-	-	-	198,763	198,763
Unassigned	3,562,779	(92,487)	-	(616,964)	(3,450)	2,849,878
	<u>\$3,562,779</u>	<u>\$ (92,487)</u>	<u>\$ 629,616</u>	<u>\$ (616,964)</u>	<u>\$ 243,064</u>	<u>\$ 3,726,008</u>

**NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS**

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.



**CITY OF CROSBY**  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017

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

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

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

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

**CITY OF CROSBY**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

**NOTE 11 COMMITMENTS**

The City's Housing Authority financed the purchase of the first housing complex in 2006 with the issuance of bonds. The City signed an operation and maintenance deficit agreement with the City's Housing Authority as security for operation and maintenance expense of the housing complex project, which include all amount reasonably required from time to time for utility charges, taxes, and other governmental impositions, insurance, repair, maintenance, other operating costs and reasonable contingency reserves (O&M expenses). In the event that gross revenue of the project is insufficient to make full and timely payment of both the principal and interest of the bond, when due, and all of the O&M expense, then the Authority shall give the City prompt notice of deficiency or anticipated deficiency, and to the extent monies are in fact insufficient, the City agrees to provide the amount. Nothing in the agreement is intended or shall be construed as obligation of the City to contribute funds to pay debt service on the bond. Shall any amount be paid by the City, the Authority agrees to repay the City.

Prior to year-end, the City has entered into construction contracts totaling \$974,557. As of December 31, 2017, there is \$498,073 left to be paid on the remainder of these contracts.

**NOTE 12 SUBSEQUENT EVENTS**

Subsequent to year-end, the City has entered into contracts for services totaling \$412,000.

Subsequent events have been evaluated through August 14, 2018, which is the date these financial statements were available to be issued.

**CITY OF CROSBY**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS – GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>RECEIPTS</b>				
Taxes	\$ 67,128	\$ 67,128	\$ 66,587	\$ (541)
Licenses and permits	18,700	18,700	16,284	(2,416)
Intergovernmental	463,200	463,200	1,593,213	1,130,013
Fines and forfeits	3,000	3,000	1,476	(1,524)
Interest	2,000	2,000	-	(2,000)
Miscellaneous	25,050	25,050	52,210	27,160
Total receipts	<u>579,078</u>	<u>579,078</u>	<u>1,729,770</u>	<u>1,150,692</u>
<b>DISBURSEMENTS</b>				
Current:				
General government	886,400	886,400	2,841,392	(1,954,992)
Public safety	376,082	376,082	265,030	111,052
Highways and streets	847,000	847,000	553,800	293,200
Culture and recreation	30,000	30,000	30,000	-
Miscellaneous capital improvements	200,000	200,000	27,352	172,648
Total disbursements	<u>2,339,482</u>	<u>2,339,482</u>	<u>3,717,574</u>	<u>(1,378,092)</u>
Excess of receipts over (under) disbursements	<u>(1,760,404)</u>	<u>(1,760,404)</u>	<u>(1,987,804)</u>	<u>(227,400)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	5,500	5,500	-	(5,500)
Transfers out	<u>(280,000)</u>	<u>(280,000)</u>	<u>-</u>	<u>280,000</u>
Total other financing sources (uses)	<u>(274,500)</u>	<u>(274,500)</u>	<u>-</u>	<u>274,500</u>
Excess of receipts and other sources over disbursements	<u>\$ (2,034,904)</u>	<u>(2,034,904)</u>	<u>(1,987,804)</u>	<u>47,100</u>
Fund balances - beginning			<u>5,550,583</u>	
Fund balances - ending			<u>\$ 3,562,779</u>	

**CITY OF CROSBY**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS – MUNICIPAL HIGHWAY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>RECEIPTS</b>				
Intergovernmental	\$ 137,000	\$ 137,000	\$ 116,758	\$ (20,242)
Miscellaneous	2,600	2,600	-	(2,600)
Total receipts	<u>139,600</u>	<u>139,600</u>	<u>116,758</u>	<u>(22,842)</u>
<b>DISBURSEMENTS</b>				
Current:				
Highways and streets	<u>249,800</u>	<u>249,800</u>	<u>184,960</u>	<u>64,840</u>
Excess of receipts over (under) disbursements	<u>(110,200)</u>	<u>(110,200)</u>	<u>(68,202)</u>	<u>41,998</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Excess of receipts and other sources under disbursements	<u>\$ (60,200)</u>	<u>\$ (60,200)</u>	<u>(68,202)</u>	<u>\$ (8,002)</u>
Fund balances - beginning			<u>(24,285)</u>	
Fund balances - ending			<u>\$ (92,487)</u>	



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 Commission  
City of Crosby  
Crosby, 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 financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crosby, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise City of Crosby's basic financial statements and have issued our report thereon dated August 14, 2018. An adverse opinion was issued over the aggregate discretely presented component unit for the year ended December 31, 2017 due to the omission of the required component unit from the financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Crosby'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 Crosby's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Crosby's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item #2017-001 in the accompanying schedule of findings and responses 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 deficiencies as described as items #2017-002 and #2017-003 in the accompanying schedule of findings and responses to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Crosby'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item #2017-004.

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

City of Crosby's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Crosby'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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

August 14, 2018

**CITY OF CROSBY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**#2017-001 - Material Journal Entries Proposed by Auditors - Material Weakness**

Criteria

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

Condition

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

Cause

The City's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on the cash basis of accounting.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the cash basis of accounting prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the City reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions

The City will post all necessary entries going forward before the audit.

**CITY OF CROSBY**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2017

**#2017-002 - Auditor Preparation of Financial Statements – Significant Deficiency**

Criteria

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

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city commission. However, the City does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

Due to the small size of the City, it is not currently cost effective for the City personnel to obtain this level of expertise.



**CITY OF CROSBY**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2017

**#2017-003 - Segregation of Duties – Significant Deficiency**

Criteria

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

Condition

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

Cause

Size and budget constraints limiting 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 areas 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 board.

Views of Responsible Officials and Planned Corrective Actions:

Due to the small size of the City, it is not currently cost effective for the City to completely eliminate this internal control finding. The City will continue to look for ways to improve its internal control structure.

**CITY OF CROSBY**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**#2017-004 – Notice of Preliminary Budget Statement**

Criteria

North Dakota Century Code 40-40-06 requires the municipality to provide notice of the public budget hearing at least once, not six days prior to the budget hearing, in a newspaper published in the municipality. This notice should contain a statement of the total proposed expenditures for each fund in the preliminary budget and provide that any taxpayer may appear and discuss with the governing body any item of proposed expenditures or may object to any item or amount.

Condition

The notice published in the municipality newspaper did not list the total proposed expenditures for each fund in the preliminary budget.

Cause

The City has not implemented policies and procedures to ensure the preliminary budget notice meets all of the items required by North Dakota Century Code.

Effect

The City is not in compliance with North Dakota Century Code requirements.

Recommendation

We recommend the City implement policies and procedures to ensure the preliminary budget notice contains all of the items required by North Dakota Century Code.

Views of Responsible Officials and Planned Corrective Actions

The City will follow all North Dakota Century Code requirements going forward.