

AUDIT REPORT

CITY OF McCLUSKY
McClusky, North Dakota

For the Years Ended December 31, 2016 and 2015

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF McCLUSKY
McClusky, North Dakota

TABLE OF CONTENTS
For the Years Ended December 31, 2016 and 2015

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-13
 BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	14, 15
Statement of Activities - Modified Cash Basis	16, 17
Balance Sheet - Modified Cash Basis - Governmental Funds	18, 19
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	20, 21
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	22, 23
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	24, 25
Statement of Net Position - Modified Cash Basis - Proprietary Funds	26, 27
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	28, 29
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	30, 31
Statement of Fiduciary Net Position - Modified Cash Basis	32, 33
Statement of Changes in Fiduciary Net Position - Modified Cash Basis	34, 35
Notes to the Financial Statements	36-51
 SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules - Modified Cash Basis General Fund	52, 53
Street and Road Fund	54, 55
Notes to the Budgetary Comparison Schedules	56
Schedule of Employer's Share of Net Pension Liability ND Public Employees Retirement System	57
Schedules of Fund Activity Arising from Cash Transactions	58, 59
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	60-61
Schedule of Findings and Responses	62-63
Management Letter	64

CITY OF McCLUSKY
McClusky, North Dakota

CITY OFFICIALS

Roberta Hunt	Mayor
Bryon Belile	Council Member
Dorothy Estrada	Council Member
Lynn Meserole	Council Member
Nathan Rhoads	Council Member
Jennifer Meserole	Auditor

Rath & Mehler, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehler, CPA
Bryce Fischer, CPA

425 North Fifth Street
Bismarck, ND 58501
Phone 701-258-4560
Fax 701-258-4983

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of McClusky
McClusky, 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 McClusky, McClusky, North Dakota, as of and for the years ended December 31, 2016 and 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 1; 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 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 audits. We conducted our audits 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 audits 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 judgement, 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 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 McClusky, McClusky, North Dakota, as of December 31, 2016 and 2015, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting 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 modified 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedules of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 26, 2017

CITY OF McCLUSKY

Management's Discussion and Analysis

December 31, 2016 and 2015

The Management's Discussion and Analysis (MD&A) of the City of McClusky's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2016 and 2015. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city decreased \$45,210 as a result of the current year's operations. Net position of the governmental activities decreased \$5,321 and net position of the business-type activities decreased \$39,889.
- * Governmental net position totaled \$251,877 and business-type net position totaled \$217,105.
- * Total revenues from all sources were \$254,118 for governmental activities and \$131,442 for business-type activities.
- * Total expenses were \$259,440 for governmental activities and \$171,331 for business-type activities.
- * The city's general fund had \$79,451 in total revenues and \$92,011 in total expenditures. Overall, the general fund balance decreased by \$12,561 for the year ended December 31, 2016.

Key financial highlights for the year ended December 31, 2015 are as follows:

- * Total net position of the city decreased \$5,806 as a result of the current year's operations. Net position of the governmental activities increased \$17,196 and net position of the business-type activities decreased \$23,001.
- * Governmental net position totaled \$257,199 and business-type net position totaled \$256,993.
- * Total revenues from all sources were \$230,363 for governmental activities and \$132,675 for business-type activities.
- * Total expenses were \$213,167 for governmental activities and \$155,677 for business-type activities.
- * The city's general fund had \$93,066 in total revenues and \$99,092 in total expenditures. Overall, the general fund balance decreased by \$6,026 for the year ended December 31, 2015.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- * Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- * Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. 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 funds are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the years ended December 31, 2016 and 2015?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, urban and economic development and culture and recreation. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and sanitation.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, street and road fund, building fund and job development authority fund are considered "major governmental funds". The city's water operating fund, sewer operating fund and garbage operating fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2016 and 2015. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position decreased by \$45,210 and \$5,806 for the years ended December 31, 2016 and 2015, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2016, the city's net position of \$468,982 is segregated into three separate categories. Net investment in capital assets totals \$334,272. It should be noted that these assets are not available for future spending. The restricted component of net position is \$156,102 of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$21,392) which includes (\$22,014) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$622 is available to meet the city's ongoing obligations.

Table I
 Net Position
 As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	171,275	11,047
Capital Assets (net of accumulated depreciation)	102,616	231,656
Total Assets	<u>273,891</u>	<u>242,703</u>
Deferred Outflows of Resources	<u>8,478</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities		6,499
Long-Term Liabilities		19,100
Net Pension Liability	24,772	
Total Liabilities	<u>24,772</u>	<u>25,598</u>
Deferred Inflows of Resources	<u>5,720</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	102,616	231,656
Restricted	156,102	
Unrestricted	(6,841)	(14,551)
Total Net Position	<u>251,877</u> =====	<u>217,105</u> =====

As of December 31, 2015, the city's net position of \$514,192 is segregated into three separate categories. Net investment in capital assets totals \$349,033. It should be noted that these assets are not available for future spending. The restricted component of net position is \$143,256 of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is \$21,904 which includes (\$21,550) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$43,454 is available to meet the city's ongoing obligations.

Net Position
 As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	171,119	15,590
Capital Assets (net of accumulated depreciation)	107,630	241,403
Total Assets	<u>278,749</u>	<u>256,993</u>
Deferred Outflows of Resources	<u>3,037</u>	<u>0</u>
<u>Liabilities</u>		
Net Pension Liability	20,571	0
Deferred Inflows of Resources	<u>4,016</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	107,630	241,403
Restricted	143,256	
Unrestricted	6,313	15,590
Total Net Position	<u>257,199</u> =====	<u>256,993</u> =====

Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	149,032	28,845
Capital Assets (net of accumulated depreciation)	112,644	251,150
Total Assets	<u>261,676</u>	<u>279,995</u>
Deferred Outflows of Resources	<u>2,120</u>	<u>0</u>
<u>Liabilities</u>		
Net Pension Liability	<u>23,793</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	112,644	251,150
Restricted	114,250	
Unrestricted	13,109	28,845
Total Net Position	<u>240,003</u> =====	<u>279,995</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2016 and 2015. A comparative analysis of city-wide data is presented for both current years prior year.

Table II
Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	75,519	131,422
Operating Grants and Contributions	84,957	
<u>General Revenues:</u>		
Property Taxes	35,665	
Other Taxes	21,482	
Intergovernmental - Unrestricted	21,611	
Interest Earnings and Other Revenue	14,884	20
Total Revenues	<u>254,118</u>	<u>131,442</u>
<u>Expenses</u>		
General Government	48,965	
Public Safety	40,374	
Streets and Public Works	41,190	
Urban and Economic Development	92,947	
Culture and Recreation	13,730	
Other	22,233	
Water Operating		82,987
Sewer Operating		49,949
Garbage Operating		38,395
Total Expenses	<u>259,440</u>	<u>171,331</u>
Net Change in Position	<u>(5,321)</u> =====	<u>(39,889)</u> =====

Property taxes constituted 9%, other taxes 6%, unrestricted intergovernmental 6%, operating grants and contributions 22%, and charges for services made up 54% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 11%, public safety 9%, streets and public works 10%, and enterprise 40% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	67,074	132,655
Operating Grants and Contributions	60,596	
<u>General Revenues:</u>		
Property Taxes	35,672	
Other Taxes	22,991	
Intergovernmental - Unrestricted	32,570	
Interest Earnings and Other Revenue	11,460	20
Total Revenues	230,363	132,675
Expenses		
General Government	53,860	
Public Safety	29,577	
Streets and Public Works	45,180	
Urban and Economic Development	61,301	
Culture and Recreation	17,069	
Other	6,181	
Water Operating		74,326
Sewer Operating		32,572
Garbage Operating		48,778
Total Expenses	213,167	155,677
Net Change in Position	17,196	(23,001)

Property taxes constituted 10%, other taxes 6%, unrestricted intergovernmental 9%, operating grants and contributions 17%, and charges for services made up 55% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 15%, public safety 8%, streets and public works 12%, and enterprise 58% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	31,389	132,826
Operating Grants and Contributions	76,487	
<u>General Revenues:</u>		
Property Taxes	42,123	
Other Taxes	23,663	
Intergovernmental - Unrestricted	31,673	
Interest Earnings and Other Revenue	16,559	78
Total Revenues	221,893	132,903
Expenses		
General Government	58,691	
Public Safety	31,597	
Streets and Public Works	107,119	
Urban and Economic Development	50,748	
Culture and Recreation	17,443	
Other	12,416	
Water Operating		97,499
Sewer Operating		33,368
Garbage Operating		46,550
Total Expenses	278,014	177,418
Net Change in Position	(56,121)	(44,514)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services
As of December 31, 2016

	<u>Total Cost Year Ended Dec. 31, 2016</u>	<u>Net Cost Year Ended Dec. 31, 2016</u>
General Government	48,965	48,320
Public Safety	40,374	37,506
Streets and Public Works	41,190	(12,585)
Urban and Economic Development	92,947	(3,037)
Culture and Recreation	13,730	6,526
Other	22,233	22,233
Total Expenses	259,440	98,964

Total and Net Cost of Services
As of December 31, 2015

	Total Cost Year Ended <u>Dec. 31, 2015</u>	Net Cost Year Ended <u>Dec. 31, 2015</u>
General Government	53,860	53,359
Public Safety	29,577	27,557
Streets and Public Works	45,180	(15,416)
Urban and Economic Development	61,301	7,605
Culture and Recreation	17,069	6,212
Other	6,181	6,181
Total Expenses	<u>213,167</u> =====	<u>85,498</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$254,118 and expenditures of \$253,962 for the year ended December 31, 2016. For the year ended December 31, 2015, the city's governmental funds had total revenue of \$230,363 and expenditures of \$208,276. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$16,645 and total unassigned fund balances for all the city's governmental funds was \$15,173. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$29,206 and total unassigned fund balances for all the city's governmental funds was \$27,863.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2016 and 2015, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2016 was \$12,805 less than budgeted. This variance was mainly due to the city underestimating total collections for sales taxes and overestimating total collections for state aid distribution. Actual expenditures for the year ended December 31, 2016 were under budget by \$17,264. This variance was mainly due to the city overestimating appropriations for general government purposes.

Actual revenue for the year ended December 31, 2015 was \$4,550 more than budgeted. Actual expenditures for the year ended December 31, 2015 were under budget by \$7,188.

CAPITAL ASSETS

As of December 31, 2016 and 2015, the city had \$334,272 and \$349,033, respectively, invested in capital assets. The following tables show the balances, for governmental and business-type activities, as of December 31, 2016, 2015 and 2014.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	100,264	231,656
Machinery and Vehicles	2,352	
Total (net of depreciation)	<u>102,616</u> =====	<u>231,656</u> =====

This total represents a decrease of \$14,761 in capital assets from January 1, 2016.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	102,931	241,403
Machinery and Vehicles	4,699	
Total (net of depreciation)	<u>107,630</u> =====	<u>241,403</u> =====

This total represents a decrease of \$14,761 in capital assets from January 1, 2015.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	105,598	251,150
Machinery and Vehicles	7,046	
Total (net of depreciation)	<u>112,644</u> =====	<u>251,150</u> =====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$25,598 in outstanding debt of which \$6,499 was due within one year. During fiscal year 2016, the city issued one new long-term debt obligation:

Bank Loan Payable, in the amount of \$27,000. The city obtained financing to provide funds for sewer lines flushing and scoping. This loan will have a final payment on September 1, 2020.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Jennifer Meserole, City Auditor, McClusky, ND.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport
ASSETS:				
Cash, Cash Equivalents and Investments	171,275.44	11,046.99	182,322.43	29,994.93
Capital Assets (net of accumulated depreciation):				
Buildings and Infrastructure	100,264.00	231,656.00	331,920.00	
Machinery and Vehicles	2,352.00		2,352.00	
Total Capital Assets	102,616.00	231,656.00	334,272.00	
Total Assets	273,891.44	242,702.99	516,594.43	29,994.93
DEFERRED OUTFLOWS OF RESOURCES:				
Changes in Resources Related to Pensions			8,478.00	
LIABILITIES:				
Long-Term Liabilities:				
Due Within One Year				
Bank Loan Payable		6,498.56	6,498.56	
Due After One Year				
Bank Loan Payable		19,099.87	19,099.87	
Net Pension Liability	24,772.00		24,772.00	
Total Liabilities	24,772.00	25,598.43	50,370.43	
DEFERRED INFLOWS OF RESOURCES:				
Changes in Resources Related to Pensions			5,720.00	
NET POSITION:				
Net Investment in Capital Assets	102,616.00	231,656.00	334,272.00	
Restricted for:				
Special Purposes	156,102.42		156,102.42	
Unrestricted	(6,840.98)	(14,551.44)	(21,392.42)	29,994.93
Total Net Position	251,877.44	217,104.56	468,982.00	29,994.93

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport
ASSETS:				
Cash, Cash Equivalents and Investments	171,118.91	15,590.45	186,709.36	27,728.90
Capital Assets (net of accumulated depreciation):				
Buildings and Infrastructure	102,931.00	241,403.00	344,334.00	
Machinery and Vehicles	4,699.00		4,699.00	
Total Capital Assets	107,630.00	241,403.00	349,033.00	
Total Assets	278,748.91	256,993.45	535,742.36	27,728.90
DEFERRED OUTFLOWS OF RESOURCES:				
Changes in Resources Related to Pensions	3,037.00		3,037.00	
LIABILITIES:				
Net Pension Liability	20,571.00		20,571.00	
DEFERRED INFLOWS OF RESOURCES:				
Changes in Resources Related to Pensions	4,016.00		4,016.00	
NET POSITION:				
Net Investment in Capital Assets	107,630.00	241,403.00	349,033.00	
Restricted for:				
Special Purposes	143,255.74		143,255.74	
Unrestricted	6,313.17	15,590.45	21,903.62	27,728.90
Total Net Position	257,198.91	256,993.45	514,192.36	27,728.90

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
 McClusky, North Dakota

Statement of Activities - Modified Cash Basis
 For the Year Ended December 31, 2016

	Net (Expense) Revenue and Changes in Net Position					Component Unit
	Program Revenues		Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
<u>Primary Government:</u>						
<u>Governmental Activities:</u>						
General Government	48,965.26	645.00		(48,320.26)		(48,320.26)
Public Safety	40,374.10	2,868.00		(37,506.10)		(37,506.10)
Streets and Public Works	41,190.46	53,775.20		12,584.74		12,584.74
Urban and Economic Development	92,946.84	72,006.20	23,978.00	3,037.36		3,037.36
Culture and Recreation	13,730.04		7,203.61	(6,526.43)		(6,526.43)
Other	22,232.88			(22,232.88)		(22,232.88)
Total Governmental Activities	259,439.58	75,519.20	84,956.81	(98,963.57)		(98,963.57)
<u>Business-Type Activities:</u>						
Water Operating	82,986.53	71,030.20			(11,956.33)	(11,956.33)
Sewer Operating	49,949.35	16,249.70			(33,699.65)	(33,699.65)
Garbage Operating	38,395.38	44,142.45			5,747.07	5,747.07
Total Business-Type Activities	171,331.26	131,422.35			(39,908.91)	(39,908.91)
Total Primary Government	430,770.84	206,941.55	84,956.81	(98,963.57)	(39,908.91)	(138,872.48)
Component Unit:						
Airport	3,635.02					(3,635.02)

General Revenues:

Taxes:

Property taxes; levied for general purposes
Property taxes; levied for special purposes
Homestead tax credit
Sales taxes
Cigarette taxes
Intergovernmental revenue not restricted
to specific programs
Earnings on investments and other revenue

26,049.26
9,615.71
153.84
20,178.37
1,150.12
21,610.89
14,883.91

26,049.26
9,615.71
153.84
20,178.37
1,150.12
21,610.89
14,903.93
5,901.05

Total General Revenues

93,642.10

93,662.12
5,901.05

Change in Net Position

(5,321.47)

(39,888.89)
(45,210.36)
2,266.03

Net Position - January 1

257,198.91

256,993.45
514,192.36
27,728.90

Net Position - December 31

251,877.44

217,104.56
468,982.00
29,994.93

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
 McClusky, North Dakota

Statement of Activities - Modified Cash Basis
 For the Year Ended December 31, 2015

Net (Expense) Revenue and Changes in Net Position

	Program Revenues				Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport	
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	53,859.52	501.00		(53,358.52)		(53,358.52)		
Public Safety	29,576.98	2,020.00		(27,556.98)		(27,556.98)		
Streets and Public Works	45,179.91		60,596.20	15,416.29		15,416.29		
Urban and Economic Development	61,301.15	53,695.71		(7,605.44)		(7,605.44)		
Culture and Recreation	17,068.81	10,856.79		(6,212.02)		(6,212.02)		
Other	6,181.03			(6,181.03)		(6,181.03)		
Total Governmental Activities	213,167.40	67,073.50	60,596.20	(85,497.70)		(85,497.70)		
<u>Business-Type Activities:</u>								
Water Operating	74,325.83	73,233.91			(1,091.92)	(1,091.92)		
Sewer Operating	32,572.46	15,833.97			(16,738.49)	(16,738.49)		
Garbage Operating	48,778.41	43,587.50			(5,190.91)	(5,190.91)		
Total Business-Type Activities	155,676.70	132,655.38			(23,021.32)	(23,021.32)		
Total Primary Government	368,844.10	199,728.88	60,596.20	(85,497.70)	(23,021.32)	(108,519.02)		
===== Component Unit: Airport								
	4,602.74							(4,602.74)
=====								

General Revenues:

Taxes:

Property taxes; levied for general purposes
Property taxes; levied for special purposes
Homestead tax credit
Sales taxes
Cigarette taxes
Intergovernmental revenue not restricted
to specific programs
Earnings on investments and other revenue

26,813.69	26,813.69		
8,858.29	8,858.29		
881.31	881.31		
20,875.82	20,875.82		
1,233.37	1,233.37		
32,570.40	32,570.40		
11,460.42	11,480.42	20.00	6,904.32
102,693.30	102,713.30	20.00	6,904.32
17,195.60	(23,001.32)	(5,805.72)	2,301.58
261,676.31	279,994.77	541,671.08	25,427.32
(21,673.00)	(21,673.00)		
240,003.31	279,994.77	519,998.08	
257,198.91	256,993.45	514,192.36	27,728.90

Total General Revenues

Change in Net Position

Net Position - January 1
Prior Period Adjustment, see Note 10

Net Position - January 1, as restated

Net Position - December 31

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2016

Major Funds

	General	Street and Road	Building	Job Development Authority	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash, Cash Equivalents and Investments	15,173.02	69,353.08	12,690.57	52,793.71	21,265.06	171,275.44
Interfund Receivable	1,472.40					1,472.40
Total Assets	16,645.42	69,353.08	12,690.57	52,793.71	21,265.06	172,747.84
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Interfund Payable					1,472.40	1,472.40
Fund Balances:						
Restricted for:						
General Government					13,090.96	13,090.96
Public Safety					8,174.10	8,174.10
Streets and Public Works		69,353.08				69,353.08
Urban and Econ. Dev.				52,793.71		52,793.71
Other Special Purposes			12,690.57			12,690.57
Unassigned	16,645.42				(1,472.40)	15,173.02
Total Fund Balances	16,645.42	69,353.08	12,690.57	52,793.71	19,792.66	171,275.44
Total Liabilities and Fund Balances	16,645.42	69,353.08	12,690.57	52,793.71	21,265.06	172,747.84

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2015

Major Funds

	General	Street and Road	Building	Job Development Authority	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash, Cash Equivalents and Investments	27,863.17	42,099.26	30,024.24	41,685.03	29,447.21	171,118.91
Interfund Receivable	1,342.85					1,342.85
Total Assets	29,206.02	42,099.26	30,024.24	41,685.03	29,447.21	172,461.76
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Interfund Payable					1,342.85	1,342.85
Fund Balances:						
Restricted for:						
General Government					13,272.19	13,272.19
Public Safety					16,175.02	16,175.02
Streets and Public Works		42,099.26				42,099.26
Urban and Econ. Dev.				41,685.03		41,685.03
Other Special Purposes			30,024.24			30,024.24
Unassigned	29,206.02				(1,342.85)	27,863.17
Total Fund Balances	29,206.02	42,099.26	30,024.24	41,685.03	28,104.36	171,118.91
Total Liabilities and Fund Balances	29,206.02	42,099.26	30,024.24	41,685.03	29,447.21	172,461.76

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds	171,275.44
--	------------

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	270,475.00	
Less Accumulated Depreciation	(167,859.00)	
Net Capital Assets		102,616.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	8,478.00	
Total Deferred Inflows of Resources	(5,720.00)	
Net Deferred Outflows/Inflows of Resources		2,758.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are:

Net Pension Liability	(24,772.00)
-----------------------	-------------

Total Net Position of Governmental Activities	251,877.44
---	------------

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2015

Total Fund Balances for Governmental Funds	171,118.91
--	------------

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	270,475.00	
Less Accumulated Depreciation	(162,845.00)	
Net Capital Assets		107,630.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	3,037.00	
Total Deferred Inflows of Resources	(4,016.00)	
Net Deferred Outflows/Inflows of Resources		(979.00)

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2015 are:

Net Pension Liability	(20,571.00)
-----------------------	-------------

Total Net Position of Governmental Activities	257,198.91
---	------------

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2016

	Major Funds					Total Governmental Funds
	General	Street and Road	Building	Job Development Authority	Other Governmental Funds	
Revenues:						
Taxes	38,156.31	4.33		8,071.32	9,611.38	55,843.34
Licenses, Permits and Fees	645.00			72,006.20		72,651.20
Intergovernmental	30,118.46	53,775.20		23,978.00		107,871.66
Fines and Forfeitures	2,868.00					2,868.00
Miscellaneous	7,663.07	2,313.62	4,899.21		8.01	14,883.91
Total Revenues	79,450.84	56,093.15	4,899.21	104,055.52	9,619.39	254,118.11
Expenditures:						
Current:						
General Government	37,122.92				8,978.34	46,101.26
Public Safety	31,421.35				8,952.75	40,374.10
Streets and Public Works	9,737.13	28,839.33				38,576.46
Urban and Economic Development				92,946.84		92,946.84
Culture and Recreation	13,730.04					13,730.04
Other			22,232.88			22,232.88
Total Expenditures	92,011.44	28,839.33	22,232.88	92,946.84	17,931.09	253,961.58
Net Change in Fund Balances	(12,560.60)	27,253.82	(17,333.67)	11,108.68	(8,311.70)	156.53
Fund Balance - January 1	29,206.02	42,099.26	30,024.24	41,685.03	28,104.36	171,118.91
Fund Balance - December 31	16,645.42	69,353.08	12,690.57	52,793.71	19,792.66	171,275.44

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2015

	Major Funds					Total Governmental Funds
	General	Street and Road	Building	Job Development Authority	Other Governmental Funds	
Revenues:						
Taxes	39,339.22	220.33		8,350.29	8,637.96	56,547.80
Licenses, Permits and Fees	501.00			53,695.71		54,196.71
Intergovernmental	45,541.87	60,596.20				106,138.07
Fines and Forfeitures	2,020.00					2,020.00
Miscellaneous	5,664.40	198.50	4,180.18		1,417.34	11,460.42
Total Revenues	93,066.49	61,015.03	4,180.18	62,046.00	10,055.30	230,363.00
Expenditures:						
Current:						
General Government	42,649.98				8,932.54	51,582.52
Public Safety	29,417.00				159.98	29,576.98
Streets and Public Works	9,956.52	32,609.39				42,565.91
Urban and Economic Development				61,301.15		61,301.15
Culture and Recreation	17,068.81					17,068.81
Other			6,181.03			6,181.03
Total Expenditures	99,092.31	32,609.39	6,181.03	61,301.15	9,092.52	208,276.40
Net Change in Fund Balances	(6,025.82)	28,405.64	(2,000.85)	744.85	962.78	22,086.60
Fund Balance - January 1	35,231.84	13,693.62	32,025.09	40,940.18	27,141.58	149,032.31
Fund Balance - December 31	29,206.02	42,099.26	30,024.24	41,685.03	28,104.36	171,118.91

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds 156.53

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(5,014.00)	(5,014.00)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not required as expenditures in governmental funds.

Net Increase to Pension Expense		(464.00)

Change in Net Position of Governmental Activities		(5,321.47)

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
 McClusky, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
 Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
 For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds 22,086.60

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(5,014.00)	(5,014.00)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not required as expenditures in governmental funds.

Net Decrease to Pension Expense		123.00

Change in Net Position of Governmental Activities		17,195.60

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	46.24		11,000.75	11,046.99
Interfund Receivables	1,444.87			1,444.87
Total Current Assets	1,491.11		11,000.75	12,491.86
Noncurrent Assets:				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	3,000.00	228,656.00		231,656.00
Total Assets	4,491.11	228,656.00	11,000.75	244,147.86
=====				
LIABILITIES:				
Current Liabilities:				
Interfund Payables		1,444.87		1,444.87
Bank Loan Payable		6,498.56		6,498.56
Total Current Liabilities		7,943.43		7,943.43
Noncurrent Liabilities:				
Bank Loan Payable		19,099.87		19,099.87
Total Liabilities		27,043.30		27,043.30
NET POSITION				
Net Investment in Capital Assets	3,000.00	228,656.00		231,656.00
Unrestricted	1,491.11	(27,043.30)	11,000.75	(14,551.44)
Total Net Position	4,491.11	201,612.70	11,000.75	217,104.56
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	10,346.78		5,243.67	15,590.45
Interfund Receivables	2,090.65			2,090.65
Total Current Assets	12,437.43		5,243.67	17,681.10
Noncurrent Assets:				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	4,000.00	237,403.00		241,403.00
Total Assets	16,437.43	237,403.00	5,243.67	259,084.10
=====				
LIABILITIES				
Current Liabilities:				
Interfund Payables			2,090.65	2,090.65
NET POSITION				
Net Investment in Capital Assets	4,000.00	237,403.00		241,403.00
Unrestricted	12,437.43	(2,090.65)	5,243.67	15,590.45
Total Net Position	16,437.43	235,312.35	5,243.67	256,993.45
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds

For the Year Ended December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	71,030.20			71,030.20
Sewer Collections		16,249.70		16,249.70
Garbage Collections			44,142.45	44,142.45
Total Operating Revenues	71,030.20	16,249.70	44,142.45	131,422.35
<u>Operating Expenses:</u>				
Water Department	81,986.53			81,986.53
Sewer Department		40,745.53		40,745.53
Garbage Department			38,395.38	38,395.38
Depreciation	1,000.00	8,747.00		9,747.00
Total Operating Expenses	82,986.53	49,492.53	38,395.38	170,874.44
Operating Income (Loss)	(11,956.33)	(33,242.83)	5,747.07	(39,452.09)
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	10.01		10.01	20.02
Interest Expense		(456.82)		(456.82)
Total Non-Operating Revenues (Expenses)	10.01	(456.82)	10.01	(436.80)
Change in Net Position	(11,946.32)	(33,699.65)	5,757.08	(39,888.89)
Net Position - January 1	16,437.43	235,312.35	5,243.67	256,993.45
Net Position - December 31	4,491.11	201,612.70	11,000.75	217,104.56

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds

For the Year Ended December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	73,233.91			73,233.91
Sewer Collections		15,833.97		15,833.97
Garbage Collections			43,587.50	43,587.50
Total Operating Revenues	73,233.91	15,833.97	43,587.50	132,655.38
<u>Operating Expenses:</u>				
Water Department	73,325.83			73,325.83
Sewer Department		23,825.46		23,825.46
Garbage Department			48,778.41	48,778.41
Depreciation	1,000.00	8,747.00		9,747.00
Total Operating Expenses	74,325.83	32,572.46	48,778.41	155,676.70
Operating Income (Loss)	(1,091.92)	(16,738.49)	(5,190.91)	(23,021.32)
<u>Non-Operating Revenues:</u>				
Interest Income	10.00		10.00	20.00
Change in Net Position	(1,081.92)	(16,738.49)	(5,180.91)	(23,001.32)
Net Position - January 1	17,519.35	252,050.84	10,424.58	279,994.77
Net Position - December 31	16,437.43	235,312.35	5,243.67	256,993.45

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	
<u>Cash flows from operating activities:</u>				
Receipts from customers	71,030.20	16,249.70	44,142.45	131,422.35
Payments to suppliers and employees	(81,986.53)	(40,745.53)	(38,395.38)	(161,127.44)
Net cash provided (used) by operating activities	(10,956.33)	(24,495.83)	5,747.07	(29,705.09)
<u>Cash flows from noncapital financing activities:</u>				
Interfund loan transaction	645.78	(645.78)		
<u>Cash flows from capital and related financing activities:</u>				
Proceeds from loan		27,000.00		27,000.00
Principal payments		(1,401.57)		(1,401.57)
Interest payments		(456.82)		(456.82)
Net cash provided (used) by capital and related financing activities		25,141.61		25,141.61
<u>Cash flows from investing activities:</u>				
Interest income	10.01		10.01	20.02
Net increase in cash and cash equivalents	(10,300.54)	0.00	5,757.08	(4,543.46)
Cash and cash equivalents, January 1	10,346.78	-0-	5,243.67	15,590.45
Cash and cash equivalents, December 31	46.24	-0-	11,000.75	11,046.99
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(11,956.33)	(33,242.83)	5,747.07	(39,452.09)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	1,000.00	8,747.00		9,747.00
Net cash provided (used) by operating activities	(10,956.33)	(24,495.83)	5,747.07	(29,705.09)
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	
<u>Cash flows from operating activities:</u>				
Receipts from customers	73,233.91	15,833.97	43,587.50	132,655.38
Payments to suppliers and employees	(73,325.83)	(23,825.46)	(48,778.41)	(145,929.70)
Net cash provided (used) by operating activities	(91.92)	(7,991.49)	(5,190.91)	(13,274.32)
<u>Cash flows from noncapital financing activities:</u>				
Interfund loan transaction	(2,090.65)	2,090.65		
<u>Cash flows from investing activities:</u>				
Interest income	10.00		10.00	20.00
Net increase in cash and cash equivalents	(2,172.57)	(5,900.84)	(5,180.91)	(13,254.32)
Cash and cash equivalents, January 1	12,519.35	5,900.84	10,424.58	28,844.77
Cash and cash equivalents, December 31	10,346.78	-0-	5,243.67	15,590.45
=====				
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating (loss)	(1,091.92)	(16,738.49)	(5,190.91)	(23,021.32)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	1,000.00	8,747.00		9,747.00
Net cash provided (used) by operating activities	(91.92)	(7,991.49)	(5,190.91)	(13,274.32)
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Fiduciary Net Position
Modified Cash Basis - Fiduciary Funds
December 31, 2016

	Private-Purpose Trust Fund	Agency Funds
<u>Assets:</u>		
Cash and Investments	50,000.00	0.00
<u>Liabilities:</u>		
Due to Other Governmental Units		0.00
<u>Net Position:</u>		
Held in Trust for Individuals	50,000.00	0.00

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Fiduciary Net Position
Modified Cash Basis - Fiduciary Funds
December 31, 2015

	Private-Purpose Trust Fund	Agency Funds
<u>Assets:</u>		
Cash and Investments	50,000.00	0.00
<u>Liabilities:</u>		
Due to Other Governmental Units		0.00
<u>Net Position:</u>		
Held in Trust for Individuals	50,000.00	0.00
	=====	=====

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Changes in Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
For the Year Ended December 31, 2016

	Private-Purpose Trust Fund
<u>Additions:</u>	
Interest Income	850.59
<u>Deductions:</u>	
Other	850.59
Change in Net Position	0.00
Net Position - January 1	50,000.00
Net Position - December 31	50,000.00

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Statement of Changes in Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
For the Year Ended December 31, 2015

	Private-Purpose Trust Fund
<u>Additions:</u>	
Interest Income	850.00
<u>Deductions:</u>	
Other	850.00
Change in Net Position	0.00
Net Position - January 1	50,000.00
Net Position - December 31	50,000.00

The accompanying notes are an integral part of these financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Notes to the Financial Statements
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of McClusky operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government 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.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. 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 are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes 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 on these criteria, the component unit discussed below is included within the city's reporting entity because of the significance of its operational or financial relationship with the city.

Discretely Presented Component Unit: The component unit's column in the basic financial statements include the financial data of the city's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the city.

McClusky Airport Authority: The McClusky Airport Authority's governing board is appointed by the city's governing board. The city's governing body has the authority to disapprove, amend, or approve the airport authority budget. The airport authority has the authority to issue its own debt.

The financial statements of the discretely presented component unit are presented in the basic financial statements.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of McClusky and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the city's funds. Separate statements for each fund category - *governmental*, *proprietary* and *fiduciary* - 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. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange 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.

Street and Road. This fund accounts for the state highway distribution tax used for street repairs and maintenance.

Building. This fund accounts for the accumulation of resources for the purpose of upkeep on city buildings.

Job Development Authority. This fund accounts for a portion of the city's sales tax collections and other activities related to job development.

The city reports the following major enterprise funds:

Water Operating. This fund accounts for the activities of the city's water distribution system.

Sewer Operating. This fund accounts for the activities of the city's sewage collection system.

Garbage Operating. This fund accounts for the activities of the city's garbage collection system.

The city reports the following fund types:

Private Purpose Trust Fund. This fund is used to account for resources legally held in trust for the Kathy Davis Swimming Pool Trust Fund. All resources of the fund, including earnings on investments, are used for the purpose of maintaining and operating the Kathy Davis memorial pool.

Agency Funds. These funds account for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency funds are used to account for various deposits of other governments.

C. 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-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

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. 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. 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.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund activities 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 depreciation 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.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and Infrastructure	40 to 75 years
Machinery and Vehicles	10 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt 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. Issuance costs are reported as debt service expenditures.

H. Pension

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

I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- * Committed
- * Assigned
- * Unassigned

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

J. Interfund Transactions

In the governmental and proprietary fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

K. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

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, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments 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 any 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 other securities approved by the banking board.

At December 31, 2016 the city's carrying amount of deposits was \$232,322 and the bank balance was \$237,091 which was covered by Federal Depository Insurance.

At December 31, 2015 the city's carrying amount of deposits was \$236,709 and the bank balance was \$239,187 which was covered by Federal Depository Insurance.

Credit Risk

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

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2016 the city held certificates of deposit in the amount of \$114,000, which are all considered deposits.

At December 31, 2015 the city held certificates of deposit in the amount of \$114,000, which are all considered deposits.

Concentration of Credit Risk

The city does not have a limit on the amount the city may invest in any one issuer.

Note 3 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 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by a negative cash balance in various funds. The amounts shown as interfund payables represent the amount of negative cash in the funds. Interfund receivables/payables for the years ended December 31, 2016 and 2015 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
<u>December 31, 2016</u>		
General Fund	1,472.40	
Advertising		1,472.40
Water Operating	1,444.87	
Sewer Operating		1,444.87
<u>December 31, 2015</u>		
General Fund	1,342.85	
Advertising		1,342.85
Water Operating	2,090.65	
Sewer Operating		2,090.65

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31:

	<u>2016</u>			
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	200,000			200,000
Machinery and Vehicles	70,475			70,475
Total	270,475			270,475
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	97,069	2,667		99,736
Machinery and Vehicles	65,776	2,347		68,123
Total	162,845	5,014		167,859
Governmental Activities Capital Assets, Net	107,630	(5,014)	-0-	102,616

2015

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	200,000			200,000
Machinery and Vehicles	70,475			70,475
Total	<u>270,475</u>			<u>270,475</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	94,402	2,667		97,069
Machinery and Vehicles	63,429	2,347		65,776
Total	<u>157,831</u>	<u>5,014</u>		<u>162,845</u>
Governmental Activities Capital Assets, Net	<u>112,644</u>	<u>(5,014)</u>	-0-	<u>107,630</u>
	=====	=====	=====	=====

2016

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	389,875			389,875
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	148,472	9,747		158,219
Business-type Activities Capital Assets, Net	<u>241,403</u>	<u>(9,747)</u>	-0-	<u>231,656</u>
	=====	=====	=====	=====

2015

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>January 1</u>			<u>December 31</u>
Business-type Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	389,875			389,875
<hr/>				
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	138,725	9,747		148,472
<hr/>				
Business-type Activities				
Capital Assets, Net	251,150	(9,747)	-0-	241,403
	=====			

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
<u>Governmental Activities:</u>		
General Government	2,400	2,400
Streets and Public Works	2,614	2,614
<hr/>		
Total	5,014	5,014
<hr/>		
<u>Business-type Activities:</u>		
Water Operating	1,000	1,000
Sewer Operating	8,747	8,747
<hr/>		
Total	9,747	9,747
<hr/>		

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in liabilities reported in the long-term liabilities:

Business-type Activities

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>			<u>December 31</u>	<u>One Year</u>
Bank Loan Payable	-0-	27,000	1,402	25,598	6,499
	=====				

Outstanding debt at December 31, 2016 consists of the following:

Business-type Activities

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2016, is as follows:

Bank Loan Payable. The city has taken out a loan to provide funds for the sewer lines flushing and scoping. Bank loan payable at December 31, 2016 is as follows:

\$27,000.00 loan payable with American Bank Center. This loan is due in quarterly installments \$1,858.39 through September 1, 2020; interest is at 4.25%.

25,598.43
=====

The annual requirements to amortize the outstanding loan payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	6,498.56	935.00
2018	6,774.81	658.75
2019	7,008.56	425.00
2020	5,316.50	258.67
Total	<u>25,598.43</u>	<u>2,277.42</u>
	=====	=====

Note 7 DEFICIT FUND BALANCES

The following fund had a deficit balance as of December 31:

	<u>2016</u>	<u>2015</u>
<u>Special Revenue Fund</u>		
Advertising	(1,472.40)	(1,342.85)
<u>Enterprise Fund</u>		
Sewer Operating	(1,444.87)	(2,090.65)

The city plans to eliminate these deficits with future revenue collections.

Note 8 RISK MANAGEMENT

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

In 1986, 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 pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$86,475 for public assets.

The city 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 Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$154,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 9 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS benefits program 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 active membership of the NDPERS system; and one member elected by the retired public employees.

Pension Benefits

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

Member and Employer Contributions

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

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

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

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

At December 31, 2016, the City of McClusky reported a liability of \$24,772 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015 the city's proportion was .003643 percent, which was an increase of .000402 from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016 the city recognized pension expense of \$2,831. At December 31, 2016 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources -----	Deferred Inflows of Resources -----
Differences between expected and actual experience	719	
Changes in assumptions		2,207
Net difference between projected and actual earnings on pension plan investments	2,862	3,385
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,471	128
City contributions subsequent to the measurement date (see below)	2,426	
Total	<u>8,478</u> =====	<u>5,720</u> =====

\$2,426 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

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

Year ended June 30: -----	
2017	(201)
2018	(201)
2019	(201)
2020	880
2021	52
Thereafter	0

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	4.50% per annum
Investment rate of return	8.00%, net of investment expenses.
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality 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 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net 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%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Equity Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. 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, 2015, 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 city'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 (7%)	Current Rate (8%)	1% Increase (9%)
	-----	-----	-----
The city's proportionate share of the net pension liability	37,986	24,772	13,960

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 10 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Governmental Activities. This adjustment was made to account for the district's net pension liability less it's deferred outflows of resources at December 31, 2014.

CITY OF McCLUSKY
McClusky, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	20,606.00	20,606.00	38,156.31	17,550.31
Licenses, Permits and Fees	700.00	700.00	645.00	(55.00)
Intergovernmental	46,150.00	46,150.00	30,118.46	(16,031.54)
Fines and Forfeits	2,200.00	2,200.00	2,868.00	668.00
Miscellaneous	22,600.00	22,600.00	7,663.07	(14,936.93)
Total Revenues	92,256.00	92,256.00	79,450.84	(12,805.16)
<u>Expenditures:</u>				
Current:				
General Government	57,775.00	57,775.00	37,122.92	20,652.08
Public Safety	33,000.00	33,000.00	31,421.35	1,578.65
Streets and Public Works			9,737.13	(9,737.13)
Culture and Recreation	18,500.00	18,500.00	13,730.04	4,769.96
Total Expenditures	109,275.00	109,275.00	92,011.44	17,263.56
Net Change in Fund Balances	(17,019.00)	(17,019.00)	(12,560.60)	4,458.40
Fund Balance - January 1	29,206.02	29,206.02	29,206.02	
Fund Balance - December 31	12,187.02	12,187.02	16,645.42	4,458.40

CITY OF McCLUSKY
McClusky, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	25,966.00	25,966.00	39,339.22	13,373.22
Licenses, Permits and Fees	350.00	350.00	501.00	151.00
Intergovernmental	47,100.00	47,100.00	45,541.87	(1,558.13)
Fines and Forfeits	650.00	650.00	2,020.00	1,370.00
Miscellaneous	14,450.00	14,450.00	5,664.40	(8,785.60)
Total Revenues	88,516.00	88,516.00	93,066.49	4,550.49
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	51,480.00	51,480.00	42,649.98	8,830.02
Public Safety	31,800.00	31,800.00	29,417.00	2,383.00
Streets and Public Works			9,956.52	(9,956.52)
Culture and Recreation	23,000.00	23,000.00	17,068.81	5,931.19
Total Expenditures	106,280.00	106,280.00	99,092.31	7,187.69
Net Change in Fund Balances	(17,764.00)	(17,764.00)	(6,025.82)	11,738.18
Fund Balance - January 1	35,231.84	35,231.84	35,231.84	
Fund Balance - December 31	17,467.84	17,467.84	29,206.02	11,738.18

CITY OF McCLUSKY
McClusky, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street and Road Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes			4.33	4.33
Intergovernmental			53,775.20	53,775.20
Miscellaneous			2,313.62	2,313.62
Total Revenues			56,093.15	56,093.15
<u>Expenditures:</u>				
Current:				
Streets and Public Works	29,635.00	29,635.00	28,839.33	795.67
Net Change in Fund Balances	(29,635.00)	(29,635.00)	27,253.82	56,888.82
Fund Balance - January 1	42,099.26	42,099.26	42,099.26	
Fund Balance - December 31	12,464.26	12,464.26	69,353.08	56,888.82

CITY OF McCLUSKY
McClusky, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street and Road Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes			220.33	220.33
Intergovernmental			60,596.20	60,596.20
Miscellaneous			198.50	198.50
Total Revenues			61,015.03	61,015.03
<u>Expenditures:</u>				
Current:				
Streets and Public Works	61,500.00	61,500.00	32,609.39	28,890.61
Net Change in Fund Balances	(61,500.00)	(61,500.00)	28,405.64	89,905.64
Fund Balance - January 1	13,693.62	13,693.62	13,693.62	
Fund Balance - December 31	(47,806.38)	(47,806.38)	42,099.26	89,905.64

CITY OF McCLUSKY
McClusky, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general and special revenue funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues 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 official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budgets during the years ended December 31, 2016 and 2015.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<u>Special Revenue Funds</u>		
* Building	22,232.88	6,181.03
* Job Development Authority	92,946.84	61,301.15
Advertising		139.47
Social Security		593.07
Community Center - Fire Hall	1,952.75	

* A budget was not prepared for this fund.

No remedial action is anticipated or required by the city regarding these excess expenditures.

CITY OF McCLUSKY
McClusky, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015	2016
City's proportion of the net pension liability	0.003241%	0.003643%
City's proportionate share of the net pension liability	20,571	24,772
City's covered-employee payroll	27,297	32,457
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.36%	76.32%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015	2016
Statutorily required contribution	1,810	2,311
Contributions in relation to the statutorily required contribution	(1,810)	(2,311)
Contribution deficiency (excess)	0	0
City's covered-employee payroll	27,297	32,457
Contributions as a percentage of covered-employee payroll	6.63%	7.12%

* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 9 to the financial statements.

CITY OF McCLUSKY
McClusky, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
Major Governmental Funds:						
General	29,206.02	79,450.84			92,011.44	16,645.42
Street and Road	42,099.26	56,093.15			28,839.33	69,353.08
Building	30,024.24	4,899.21			22,232.88	12,690.57
Job Development Authority	41,685.03	104,055.52			92,946.84	52,793.71
Total Major Governmental Funds	143,014.55	244,498.72			236,030.49	151,482.78
Non-Major Governmental Funds:						
Advertising	(1,342.85)	475.95			605.50	(1,472.40)
Social Security	13,272.19	8,191.61			8,372.84	13,090.96
Community Center - Fire Hall	16,175.02	951.83			8,952.75	8,174.10
Total Non-Major Governmental Funds	28,104.36	9,619.39			17,931.09	19,792.66
Total Governmental Funds	171,118.91	254,118.11			253,961.58	171,275.44
Major Enterprise Funds						
Water Operating	12,437.43	71,040.21			81,986.53	1,491.11
Sewer Operating	(2,090.65)	43,249.70			42,603.92	(1,444.87)
Garbage Operating	5,243.67	44,152.46			38,395.38	11,000.75
Total Major Enterprise Funds	15,590.45	158,442.37			162,985.83	11,046.99
Fiduciary Funds						
Private Purpose Trust Fund						
Kathy Davis Swimming Pool Trust Fund	50,000.00	850.59			850.59	50,000.00
Agency Funds						
Cemetery		832.71			832.71	
CDBG #3715-CD13-H		90,400.00			90,400.00	
Total Agency Funds		91,232.71			91,232.71	
Total Fiduciary Funds	50,000.00	92,083.30			92,083.30	50,000.00
Total Primary Government	236,709.36	504,643.78			509,030.71	232,322.43
Discretely Presented Component Unit						
Airport	27,728.90	5,901.05			3,635.02	29,994.93
Total Reporting Entity	264,438.26	510,544.83			512,665.73	262,317.36

CITY OF McCLUSKY
McClusky, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
Major Governmental Funds:						
General	35,231.84	93,066.49			99,092.31	29,206.02
Street and Road	13,693.62	61,015.03			32,609.39	42,099.26
Building	32,025.09	4,180.18			6,181.03	30,024.24
Job Development Authority	40,940.18	62,046.00			61,301.15	41,685.03
Total Major Governmental Funds	121,890.73	220,307.70			199,183.88	143,014.55
Non-Major Governmental Funds:						
Advertising	(449.30)	445.92			1,339.47	(1,342.85)
Social Security	12,147.72	8,717.54			7,593.07	13,272.19
Community Center - Fire Hall	15,443.16	891.84			159.98	16,175.02
Total Non-Major Governmental Funds	27,141.58	10,055.30			9,092.52	28,104.36
Total Governmental Funds	149,032.31	230,363.00			208,276.40	171,118.91
Major Enterprise Funds						
Water Operating	12,519.35	73,243.91			73,325.83	12,437.43
Sewer Operating	5,900.84	15,833.97			23,825.46	(2,090.65)
Garbage Operating	10,424.58	43,597.50			48,778.41	5,243.67
Total Major Enterprise Funds	28,844.77	132,675.38			145,929.70	15,590.45
Fiduciary Funds						
Private Purpose Trust Fund						
Kathy Davis Swimming Pool Trust Fund	50,000.00	850.00			850.00	50,000.00
Agency Funds						
Cemetery	359.66	779.04			1,138.70	
CDBG #3715-CD13-H		31,400.00			31,400.00	
Total Agency Funds	359.66	32,179.04			32,538.70	
Total Fiduciary Funds	50,359.66	33,029.04			33,388.70	50,000.00
Total Primary Government	228,236.74	396,067.42			387,594.80	236,709.36
Discretely Presented Component Unit						
Airport	25,427.32	6,904.32			4,602.74	27,728.90
Total Reporting Entity	253,664.06	402,971.74			392,197.54	264,438.26

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA

425 North Fifth Street
Bismarck, ND 58501
Phone 701-258-4560
Fax 701-258-4983

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*

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of McClusky
McClusky, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of McClusky, McClusky, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated May 26, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city'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 audits, 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 Response to Findings

The city's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

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 city's internal control or on compliance. This 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.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

May 26, 2017

CITY OF McCLUSKY
McClusky, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Discretely Presented Component Unit	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2016 and 2015 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA

425 North Fifth Street
Bismarck, ND 58501
Phone 701-258-4560
Fax 701-258-4983

Governing Board
City of McClusky
McClusky, North Dakota

Our audits of the financial records of the City of McClusky, McClusky, North Dakota, for the years ended December 31, 2016 and 2015 have disclosed opportunities for improvements in the operations of the city. Items which we believe should be brought to your attention are set forth below:

* * * * *

BUDGETS

Budgets were not prepared for all special revenue funds of the city. NDCC #40-40-05 requires the preparation of a separate schedule for each special revenue fund of the city. We recommend that the city comply with this section of the century code and prepare a separate schedule "C" for each special revenue fund, including those which do not have a mill levy, when preparing future annual budgets.

REVIEW OF PLEDGE OF SECURITIES

Per our review of the governing board's minutes, we did not note a semi-annual review of the pledge of securities. NDCC section 21-04-11 requires the governing board to review the pledge of securities at least every six months to determine if security pledges are adequate or are needed to protect city deposits. We recommend the board review the pledge of securities semi-annually and such action should be noted in the minutes.

INTERNAL CONTROLS OVER CHECK PROCESSING

Per our test of expenditures, we noted that the city auditor signs checks and also has control of the mayor's signature stamp, which is the required second signature. Dual signatures on checks is an internal control strength as a second individual is required to review and/or approve all expenditures prior to payment. Since the auditor has control of the signature stamp and is also authorized to sign checks, this internal control is eliminated. We recommend that the mayor maintain possession of her signature stamp or authorize an individual, such as another council member, who is not involved with preparing checks, to use it.

* * * * *

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the city, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the city during our audits.

Rath and Mehrer

Rath and Mehrer, P.C.

May 26, 2017