

**CITY OF RICHARDTON  
RICHARDTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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**CITY OF RICHARDTON**  
CITY OFFICIALS (UNAUDITED)  
DECEMBER 31, 2017

Frank Kirschenheiter	Commission President
Joshua Reisenauer	Commissioner
Koleen Hoff	Commissioner
Ralph Weisenberger	Commissioner
Thea Thompson	City Auditor



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the City Commission  
City of Richardton  
Richardton, North Dakota

### Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richardton as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Richardton'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 cash basis of accounting as described in Note 1, this includes determining that the cash basis of accounting is an acceptable basis for presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

## **Opinions**

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

## **Basis of Accounting**

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

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richardton's basic financial statements. The combining non-major fund statements and budgetary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund statements and budgetary information schedules 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the cash basis of accounting. In our opinion, the combining non-major fund statements and budgetary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, on our consideration of the City of Richardton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Richardton's internal control over financial reporting and compliance.



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

May 8, 2018

**CITY OF RICHARDTON**  
**STATEMENT OF NET POSITION - CASH BASIS**  
**DECEMBER 31, 2017**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,372,715	\$ 456,302	\$ 2,829,017
Cash and cash equivalents - restricted	<u>270,038</u>	<u>-</u>	<u>270,038</u>
Total assets	<u>2,642,753</u>	<u>456,302</u>	<u>3,099,055</u>
<b>NET POSITION</b>			
Restricted:			
Debt service	488,153	-	488,153
Business enhancement	40,211	-	40,211
Haliburton related expenses	150,038	-	150,038
Unrestricted	<u>1,964,351</u>	<u>456,302</u>	<u>2,420,653</u>
Total net position	<u>\$ 2,642,753</u>	<u>\$ 456,302</u>	<u>\$ 3,099,055</u>

See Notes to the Financial Statements

**CITY OF RICHARDTON**  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Cash Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 230,328	\$ 50,916	\$ -	\$ -	\$ (179,412)	\$ -	(179,412)
Public safety	9,522	-	-	-	(9,522)	-	(9,522)
Public works	49,295	-	1,160	-	(48,135)	-	(48,135)
Health and welfare	42,424	-	-	-	(42,424)	-	(42,424)
Culture and recreation	13,504	-	-	-	(13,504)	-	(13,504)
Capital improvements	1,028,086	-	-	-	(1,028,086)	-	(1,028,086)
Principal retirement	120,000	-	-	-	(120,000)	-	(120,000)
Interest and fiscal charges	51,142	-	-	-	(51,142)	-	(51,142)
<b>Total governmental activities</b>	<b>1,544,301</b>	<b>50,916</b>	<b>1,160</b>	<b>-</b>	<b>(1,492,225)</b>	<b>-</b>	<b>(1,492,225)</b>
<b>Business-type activities:</b>							
Water operating fund	172,607	238,994	-	-	-	66,387	66,387
Sewer operating fund	50,427	75,711	-	-	-	25,284	25,284
Garbage operating fund	122,325	125,771	-	-	-	3,446	3,446
<b>Total business-type activities</b>	<b>345,359</b>	<b>449,458</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,099</b>	<b>104,099</b>
<b>Total primary government</b>	<b>\$ 1,889,660</b>	<b>\$ 500,374</b>	<b>\$ 1,160</b>	<b>\$ -</b>	<b>(1,492,225)</b>	<b>104,099</b>	<b>(1,388,126)</b>
<b>General Receipts</b>							
<b>Taxes:</b>							
Property taxes					184,195	-	184,195
Cigarette tax					1,522	-	1,522
Sales taxes					126,728	-	126,728
Highway tax					39,706	-	39,706
Oil and gas tax					356,810	-	356,810
State aid					37,810	-	37,810
Interest income					278	41	319
Miscellaneous					30,273	-	30,273
<b>Total general receipts</b>					<b>777,322</b>	<b>41</b>	<b>777,363</b>
Change in net position					(714,903)	104,140	(610,763)
Net position - January 1					3,357,656	352,162	3,709,818
Net position - December 31					<b>\$ 2,642,753</b>	<b>\$ 456,302</b>	<b>\$ 3,099,055</b>

See Notes to the Financial Statements



**CITY OF RICHARDTON**  
**BALANCE SHEET - CASH BASIS - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

	<u>General</u>	<u>Street</u>	<u>Water, Sewer, and Lagoon</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,964,351	\$ -	\$ 286,535	\$ 121,829	\$ 2,372,715
Cash and cash equivalents - restricted	150,038	-	100,000	20,000	270,038
Due from other funds	22,728	-	-	-	22,728
Total assets	<u>\$ 2,137,117</u>	<u>\$ -</u>	<u>\$ 386,535</u>	<u>\$ 141,829</u>	<u>\$ 2,665,481</u>
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ 22,728	\$ -	\$ -	\$ 22,728
<b>FUND BALANCES</b>					
Restricted	150,038	-	386,535	141,829	678,402
Unassigned	1,987,079	(22,728)	-	-	1,964,351
Total fund balances	<u>2,137,117</u>	<u>(22,728)</u>	<u>386,535</u>	<u>141,829</u>	<u>2,642,753</u>
Total liabilities and fund balances	<u>\$ 2,137,117</u>	<u>\$ -</u>	<u>\$ 386,535</u>	<u>\$ 141,829</u>	<u>\$ 2,665,481</u>

See Notes to the Financial Statements

**CITY OF RICHARDTON**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE - CASH BASIS - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Street	Water, Sewer, and Lagoon	Nonmajor Governmental Funds	Total
<b>RECEIPTS</b>					
Taxes	\$ 495,641	\$ 39,706	\$ 135,596	\$ 38,018	\$ 708,961
Licenses, permits and fees	50,916	-	-	-	50,916
Intergovernmental	37,810	-	-	-	37,810
Interest income	278	-	-	-	278
Miscellaneous	11,629	1,160	-	18,644	31,433
Total receipts	<u>596,274</u>	<u>40,866</u>	<u>135,596</u>	<u>56,662</u>	<u>829,398</u>
<b>DISBURSEMENTS</b>					
Current:					
General government	230,328	-	-	-	230,328
Public safety	9,522	-	-	-	9,522
Public works	-	49,295	-	-	49,295
Health and welfare	42,424	-	-	-	42,424
Culture and recreation	10,873	-	-	2,631	13,504
Capital improvements	853,013	233	174,840	-	1,028,086
Debt service:					
Principal retirement	-	-	105,000	15,000	120,000
Interest and fiscal charges	-	-	40,981	10,161	51,142
Total expenditures	<u>1,146,160</u>	<u>49,528</u>	<u>320,821</u>	<u>27,792</u>	<u>1,544,301</u>
Excess of receipts over (under) disbursements	(549,886)	(8,662)	(185,225)	28,870	(714,903)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	13,097	-	-	(13,097)	-
Excess of receipts and other sources over (under) disbursements	(536,789)	(8,662)	(185,225)	15,773	(714,903)
Fund balance - January 1	<u>2,673,906</u>	<u>(14,066)</u>	<u>571,760</u>	<u>126,056</u>	<u>3,357,656</u>
Fund balance - December 31	<u>\$ 2,137,117</u>	<u>\$ (22,728)</u>	<u>\$ 386,535</u>	<u>\$ 141,829</u>	<u>\$ 2,642,753</u>

See Notes to the Financial Statements

**CITY OF RICHARDTON**  
**STATEMENT OF NET POSITION - CASH BASIS - PROPRIETARY FUNDS**  
**DECEMBER 31, 2017**

	Business-type Activities - Enterprise Funds				
	Water	Garbage	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 224,324	\$ 7,795	\$ 146,224	\$ 77,959	\$ 456,302
<b>NET POSITION</b>					
Unrestricted	\$ 224,324	\$ 7,795	\$ 146,224	\$ 77,959	\$ 456,302

See Notes to the Financial Statements

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

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Garbage	Sewer	Nonmajor Enterprise Funds	
<b>OPERATING RECEIPTS</b>					
Charges for sales and services:					
Water operations	\$ 223,441	\$ -	\$ -	\$ 15,553	\$ 238,994
Sewer operations	-	-	75,711	-	75,711
Garbage operations	-	125,771	-	-	125,771
Other operating receipts	8,982	-	-	-	8,982
Total operating receipts	<u>232,423</u>	<u>125,771</u>	<u>75,711</u>	<u>15,553</u>	<u>449,458</u>
<b>OPERATING DISBURSEMENTS</b>					
Water	172,607	-	-	-	172,607
Sewer	-	-	50,427	-	50,427
Garbage	-	122,325	-	-	122,325
Total operating disbursements	<u>172,607</u>	<u>122,325</u>	<u>50,427</u>	<u>-</u>	<u>345,359</u>
Operating income	<u>59,816</u>	<u>3,446</u>	<u>25,284</u>	<u>15,553</u>	<u>104,099</u>
<b>NON-OPERATING INCOME</b>					
Interest income	41	-	-	-	41
Change in net position	59,857	3,446	25,284	15,553	104,140
Net position - January 1	<u>164,467</u>	<u>4,349</u>	<u>120,940</u>	<u>62,406</u>	<u>352,162</u>
Net position - December 31	<u>\$ 224,324</u>	<u>\$ 7,795</u>	<u>\$ 146,224</u>	<u>\$ 77,959</u>	<u>\$ 456,302</u>

See Notes to the Financial Statements

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

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Garbage	Sewer	Nonmajor Enterprise Fund	
<u>Cash flows from operating activities:</u>					
Receipts from customers	\$ 232,423	\$ 125,771	\$ 75,711	\$ 15,553	\$ 449,458
Payments to suppliers	(141,546)	(112,302)	(40,404)	-	(294,252)
Payments to employees	(31,061)	(10,023)	(10,023)	-	(51,107)
Net cash provided (used) by operating activities	<u>59,816</u>	<u>3,446</u>	<u>25,284</u>	<u>15,553</u>	<u>104,099</u>
<u>Cash flows from noncapital financing activities:</u>					
Interest income	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41</u>
Net change in cash and cash equivalents	59,857	3,446	25,284	15,553	104,140
Cash and cash equivalents, January 1	<u>164,467</u>	<u>4,349</u>	<u>120,940</u>	<u>62,406</u>	<u>352,162</u>
Cash and cash equivalents, December 31	<u>\$ 224,324</u>	<u>\$ 7,795</u>	<u>\$ 146,224</u>	<u>\$ 77,959</u>	<u>\$ 456,302</u>

See Notes to the Financial Statements

**CITY OF RICHARDTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Financial Reporting Entity**

The accompanying financial statement present the activities of the City of Richardton. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. Based upon the application of these criteria, the City is not includable as a component unit within another reporting entity and the City does not have a component unit.

**Government-Wide and Fund Financial Statements**

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

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

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

**Fund Financial Statements**

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

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

The City reports the following major governmental funds:

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

*Street Fund.* This is a special revenue fund used to account for money received to be used for street upkeep and repairs and the related expenditures made.

*Water, Sewer, and Lagoon.* This is a capital projects fund used to account for revenues received to pay off the Refunding Improvement bonds issued, the proceeds of the Refunding Improvement bonds, and costs of the Water and Sewer District #8 project.

The City reports the following major enterprise funds:

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

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

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

**Measurement Focus and Basis of Accounting**

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

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

Measurement Focus

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

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

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

**Basis of Accounting**

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

In the government-wide statements of net position and statement of activities and the fund financial statements, both governmental and business-like activities are presented using the cash basis of accounting. This basis recognizes assets and net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions in the government-wide statements, and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

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



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

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits.

**Fund Balance Classifications**

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

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

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

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

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

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

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

The City does not have a minimum fund balance policy.

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

**Interfund Transactions**

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

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

**Use of Estimates**

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

**NOTE 2 LEGAL COMPLIANCE - BUDGETS**

Budgetary Information:

The City Commission adopts an annual budget on a basis consistent with the cash basis of accounting for the general fund, each special revenue fund and each debt service fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

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

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

Budget Amendments

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

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds during the year ended December 31, 2017:

Governmental Funds:

General	\$ 739,035
Street	2,578

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

**NOTE 3 DEPOSITS**

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

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

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

The City maintains cash on deposit at a financial institution. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2017, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and authorized collateral through local financial institutions. \$2,885,451 of the City's deposits are covered by a irrevocable letter of credit held in the City's name as of December 31, 2017.

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

Credit Risk:

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less

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

Concentration of Credit Risk:

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

**NOTE 4 CASH AND CASH EQUIVALENTS – RESTRICTED**

The City has \$270,038 reported as cash and cash equivalents – restricted as of December 31, 2017, respectively. The amount is made up of \$150,038 of cash from Halliburton and \$120,000 of cash held in reserve as part of bond agreements. Cash received from Halliburton is restricted to use as follows: to cover expenses directly incurred by the City for legal counsel, engineering reports, and other costs associated with the zoning, annexation, roadway construction, and railway development issues. Cash held in reserve is restricted in use for principal and interest payment on the Sales Tax Revenue Bonds of 2013 and Refunding Improvement Bonds of 2014 if collections of sales tax and special assessments are not sufficient to make the payment.

**NOTE 5 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.

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

**NOTE 6 DUE TO/DUE FROM OTHER FUNDS**

The due to and due from other funds consist of cash overdrafts and are as follows as of December 31, 2017:

Due to Fund	Due from Fund	Amount
<u>Governmental Funds:</u>		
General	Street	\$ 22,728

**NOTE 7 DEFICIT BALANCES**

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

<u>Governmental Funds:</u>	
Street	\$ 22,728

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

**NOTE 8 TRANSFERS**

The following is a reconciliation of transfers in and out as reported in the basic financial statements for the year ended December 31, 2017:

Fund	Transfers In	Transfers Out
<u>Governmental Funds:</u>		
General	\$ 13,097	\$ -
Non-major	-	13,097
	\$ 13,097	\$ 13,097

Transfers were made to close out funds into the general fund for financial reporting purposes that no longer qualified to be shown as a special revenue fund.

**NOTE 9 LONG-TERM DEBT**

Below is a summary of long-term debt owed by the City. This information is not included in the financial statements, as the financial statements are prepared on a cash basis.

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

During the year ended December 31, 2017, the following changes occurred in long-term debt:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Sales Tax Revenue Bonds of 2013	\$ 355,000	\$ -	\$ 15,000	\$ 340,000	\$ 20,000
Refunding Improvement Bonds of 2014	<u>1,160,000</u>	<u>-</u>	<u>105,000</u>	<u>1,055,000</u>	<u>105,000</u>
Total	<u>\$1,515,000</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$1,395,000</u>	<u>\$ 125,000</u>

Long-term debt of the governmental activities at December 31, 2017 consisted of the following issues:

**Sales Tax Revenue Bonds of 2013**

\$400,000 sales tax revenue bonds series 2013 due in annual payments of \$15,000 through 2017, \$20,000 through 2029, and \$25,000 annually through 2033. Interest payments are made semiannually in May and November with an annual interest rate of 2.85%.

The City is required to maintain a cash reserve in connection with the sales tax revenue bonds. The City is required to have an amount of at least the minimum of the following in reserve: 10% of the stated principal of the bond, the maximum annual principal and interest payment requirements of the bonds, or 125% of the average annual debt service requirements of the bond. There is currently \$20,000 shown as cash and cash equivalents – restricted on the basic financial statements to meet this requirement.

The City has an agreement in place with a developer who is to pay an annual \$18,644 payment, which includes interest of 4.50% to the City to help offset the costs through 2038.

**Refunding Improvement Bonds of 2014**

\$1,350,000 refunding improvement bonds due in annual payments ranging from \$80,000 to \$110,000 through 2028. Interest payments are made semiannually in May and November with an annual interest rate ranging from 0.50-4.00%.

The City is required to maintain a cash reserve in connection with the refunding improvement bonds revenue bonds. The City is required to have an amount of at least the minimum of the following in reserve: 10% of the stated principal of the bond, the maximum annual principal and interest payment requirements of the bonds, or 125% of the average annual debt service requirements of the bond. There is currently \$100,000 shown as cash and cash equivalents – restricted on the basic financial statements to meet this requirement.

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

The principal maturities on debt for the years ending December 31<sup>st</sup> are as follows:

Year Ending December 31	Principal	Interest
2018	\$ 125,000	\$ 37,475
2019	120,000	35,710
2020	120,000	34,010
2021	120,000	31,610
2022	115,000	29,210
2023-2027	565,000	97,756
2028-2032	205,000	18,150
2033-2037	25,000	750
Total	\$ 1,395,000	\$ 284,671

**NOTE 10 RISK MANAGEMENT**

The City of Richardton 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 (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Richardton pays an annual premium to NDRIF for its general liability, auto, and equipment insurance coverage. The coverage by NDRIF is limited to losses of \$1,000,000 per occurrence for general liability.

The City of Richardton also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$1,300,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

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

**NOTE 11 FUND BALANCES**

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

	General	Street	Water, Sewer, and Lagoon	Non-major Governmental Funds	Total
Restricted for:					
Debt service	\$ -	\$ -	\$ 386,535	\$ 101,618	\$ 488,153
Business enhancement	-	-	-	40,211	40,211
Haliburton related expenses*	150,038	-	-	-	150,038
Unassigned	1,987,079	(22,728)	-	-	1,964,351
	<u>\$ 2,137,117</u>	<u>\$ (22,728)</u>	<u>\$ 386,535</u>	<u>\$ 141,829</u>	<u>\$ 2,642,753</u>

\* See Note 4 for further information regarding amounts restricted for Haliburton related expenses.

**NOTE 12 NEW GASB PRONOUNCEMENTS**

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

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

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



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

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

**NOTE 13 SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 8, 2018, which is the date these financial statements were available to be issued.

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>RECEIPTS</b>				
Taxes	\$ 225,838	\$ 225,838	\$ 495,641	\$ 269,803
Licenses, permits and fees	14,975	14,975	50,916	35,941
Intergovernmental	288,500	288,500	37,810	(250,690)
Interest income	732	732	278	(454)
Miscellaneous	2,100	2,100	11,629	9,529
Total receipts	<u>532,145</u>	<u>532,145</u>	<u>596,274</u>	<u>64,129</u>
<b>DISBURSEMENTS</b>				
Current:				
General government	394,429	394,429	230,328	164,101
Public safety	12,696	12,696	9,522	3,174
Health and welfare	-	-	42,424	(42,424)
Culture and recreation	-	-	10,873	(10,873)
Capital improvements	-	-	853,013	(853,013)
Total disbursements	<u>407,125</u>	<u>407,125</u>	<u>1,146,160</u>	<u>(739,035)</u>
Excess of receipts over (under) disbursements	<u>\$ 125,020</u>	<u>\$ 125,020</u>	<u>(549,886)</u>	<u>\$ (674,906)</u>
Other financing sources:				
Transfers in (out)	-	-	13,097	13,097
Excess of receipts and other sources over disbursements	<u>\$ 125,020</u>	<u>\$ 125,020</u>	<u>(536,789)</u>	<u>\$ (661,809)</u>
Fund balance - January 1			<u>2,673,906</u>	
Fund balance - December 31			<u>\$ 2,137,117</u>	

**CITY OF RICHARDTON**  
**BUDGETARY COMPARISON SCHEDULE - CASH BASIS – STREET FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>RECEIPTS</b>				
Taxes	\$ 45,000	\$ 45,000	\$ 39,706	\$ (5,294)
Miscellaneous	910	910	1,160	250
Total receipts	45,910	45,910	40,866	(5,044)
<b>DISBURSEMENTS</b>				
Current:				
Public works	46,950	46,950	49,295	(2,345)
Other	-	-	233	(233)
Total disbursements	46,950	46,950	49,528	(2,578)
Excess of receipts over (under) disbursements	\$ (1,040)	\$ (1,040)	(8,662)	\$ (7,622)
Fund balance - January 1			(14,066)	
Fund balance - December 31			\$ (22,728)	

**CITY OF RICHARDTON**  
 COMBINING BALANCE SHEET – CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2017

	<u>Insurance Reserve</u>	<u>Emergency</u>	<u>Social Security</u>	<u>Advertising</u>	<u>Planning</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents - restricted	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>FUND BALANCES</b>					
Restricted	<hr/>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF RICHARDTON**  
 COMBINING BALANCE SHEET – CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS - CONTINUED  
 DECEMBER 31, 2017

	<u>Business Enhancement</u>	<u>Airport</u>	<u>Water/Sewer Extension</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 40,211	\$ -	\$ 81,618	\$ 121,829
Cash and cash equivalents - restricted	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Total assets	<u>\$ 40,211</u>	<u>\$ -</u>	<u>\$ 101,618</u>	<u>\$ 141,829</u>
<b>FUND BALANCES</b>				
Restricted	<u>\$ 40,211</u>	<u>\$ -</u>	<u>\$ 101,618</u>	<u>\$ 141,829</u>

**CITY OF RICHARDTON**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN**  
**FUND BALANCE – CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Insurance Reserve	Emergency	Social Security	Advertising	Planning
<b>RECEIPTS</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-	-
Total receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>DISBURSEMENTS</b>					
Current:					
Culture and recreation	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts over (under) disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	<u>4,166</u>	<u>(8,159)</u>	<u>1,726</u>	<u>(3,168)</u>	<u>(1,057)</u>
Excess of receipts and other sources over (under) disbursements	4,166	(8,159)	1,726	(3,168)	(1,057)
Fund balance - January 1	<u>(4,166)</u>	<u>8,159</u>	<u>(1,726)</u>	<u>3,168</u>	<u>1,057</u>
Fund balance - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF RICHARDTON**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN**  
**FUND BALANCE – CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business Enhancement	Airport	Water/Sewer Extension	Total
<b>RECEIPTS</b>				
Taxes	\$ 6,336	\$ -	\$ 31,682	\$ 38,018
Miscellaneous	-	-	18,644	18,644
Total receipts	<u>6,336</u>	<u>-</u>	<u>50,326</u>	<u>56,662</u>
<b>DISBURSEMENTS</b>				
Current:				
Culture and recreation	2,631	-	-	2,631
Debt service:				
Principal retirement	-	-	15,000	15,000
Interest and fiscal charges	-	-	10,161	10,161
Total disbursements	<u>2,631</u>	<u>-</u>	<u>25,161</u>	<u>27,792</u>
Excess of receipts over (under) disbursements	<u>3,705</u>	<u>-</u>	<u>25,165</u>	<u>28,870</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	-	(6,605)	-	(13,097)
Excess of receipts and other sources over (under) disbursements	3,705	(6,605)	25,165	15,773
Fund balance - January 1	<u>36,506</u>	<u>6,605</u>	<u>76,453</u>	<u>126,056</u>
Fund balance - December 31	<u>\$ 40,211</u>	<u>\$ -</u>	<u>\$ 101,618</u>	<u>\$ 141,829</u>

**CITY OF RICHARDTON**  
 COMBINING STATEMENT OF NET POSITION – CASH BASIS – NONMAJOR PROPRIETARY FUNDS  
 DECEMBER 31, 2017

	Transfer Account	Water Replacement	RD E&E RES	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 953	\$ 68,046	\$ 8,960	\$ 77,959
<b>NET POSITION</b>				
Unrestricted	\$ 953	\$ 68,046	\$ 8,960	\$ 77,959



**CITY OF RICHARDTON**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN**  
**FUND NET POSITION – CASH BASIS – NONMAJOR PROPRIETARY FUNDS**  
**FOR THE YEAR DECEMBER 31, 2017**

	<u>Transfer Account</u>	<u>Water Replacement</u>	<u>RD E&amp;E RES</u>	<u>Total</u>
<b>OPERATING RECEIPTS</b>				
Charges for sales and services:				
Water operations	\$ -	\$ 15,553	\$ -	\$ 15,553
Change in net position	-	15,553	-	15,553
Net position - January 1	<u>953</u>	<u>52,493</u>	<u>8,960</u>	<u>62,406</u>
Net position - December 31	<u>\$ 953</u>	<u>\$ 68,046</u>	<u>\$ 8,960</u>	<u>\$ 77,959</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the City Commission  
City of Richardton  
Richardton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Richardton, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise City of Richardton's basic financial statements and have issued our report thereon dated May 8, 2018.

**Internal Control Over Financial Reporting**

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item #2017-001 in the accompany schedule of findings and responses to be a significant deficiency.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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



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

May 8, 2018

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

**#2017-001 - Auditor Preparation of Financial Statements – Significant Deficiency**

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by City of Richardton's management that it is in the best interest of City of Richardton and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

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

**#2017-002 - Segregation of Duties - Material Weakness**

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions:

No response is considered necessary.

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

**#2017-003 - Material Journal Entries Proposed by Auditors - Material Weakness**

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by the Board and the management of the City of Richardton that it is in the best interest of Board, the City of Richardton and all interested parties to have adjustments proposed by the auditing firm in order to for the general ledger accounts to be reflected on a the cash basis of accounting.