

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**CITY OF CROSBY**  
**CROW WING COUNTY, MINNESOTA**

PETITION ENGAGEMENT

YEAR ENDED DECEMBER 31, 2002

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

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**CITY OF CROSBY  
CROW WING COUNTY, MINNESOTA**

**Year Ended December 31, 2002**



**Petition Engagement**

**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON  
STATE AUDITOR

## PETITION ENGAGEMENT

Petitioners  
Mayor and City Council  
City of Crosby

### INTRODUCTION

Eligible voters of the City of Crosby petitioned the Office of the State Auditor (OSA) to examine the books, accounts, and affairs of the City in accordance with Minn. Stat. § 6.54 for the year ended December 31, 2002. The statute allows the OSA, in the public interest, to confine the scope of the audit to less than that requested by the petition. Because most of the petitioners' concerns were satisfactorily resolved prior to the start of our examination, the scope of our review was limited to addressing the issue discussed below.

#### Interfund Loans

The petitioners were concerned that the Water Enterprise Fund public utility was financing the expenditures of other funds.

We reviewed the 2002 and 2003 City Council minutes and the audited financial statements for the years ended December 31, 2002 and 2003.

The City maintains a cash and investment pool available for use by all funds. An individual fund may overdraw its share of the pooled cash. The fund whose cash is overdrawn reports an interfund liability on the year-end balance sheet in the account "Due To Other Funds." An equivalent amount of another fund's position in the pool is reported as an interfund receivable in the "Due From Other Funds" account. The City determines the specific fund that will report the receivable.

The audited financial statements at December 31, 2002, reported that the Water Enterprise Fund had "Due From Other Funds" totaling \$585,699 from the following funds:

Community Center Special Revenue Fund	\$ 290,159
Fire Equipment Replacement Special Revenue Fund	36,962
Capital Improvement Special Revenue Fund	196,427
EDA Special Revenue Fund	1,531
Water Revenue Bonds of 1989 Debt Service Fund	16,882
Sanitation Enterprise Fund	43,738

The audited financial statements at December 31, 2003, reported that the General Fund had “Due From Other Funds” totaling \$466,517 from the following funds:

Community Center Special Revenue Fund	\$ 277,578
Fire Equipment Replacement Special Revenue Fund	48,875
Fire Department Donation Special Revenue Fund	148
Capital Improvement Special Revenue Fund	89,098
Capital Equipment Special Revenue Fund	996
EDA Special Revenue Fund	1,731
Tax Increments TIF Special Revenue Fund	279
Water Revenue Bonds of 1989 Debt Service Fund	17,732
Sanitation Enterprise Fund	30,080

*Based on the interfund activity described above, the City was funding cash overdrafts from the Water Enterprise Fund and General Fund in 2002 and 2003, respectively, rather than financing expenditures of other funds.*

*“Due To/From Other Funds” accounts generally are amounts owed for goods and services rendered to a particular fund by another fund or for interfund loans that are due within one year. The amounts should be current or short-term in nature. Generally accepted accounting principles (GAAP) state if repayment of a loan is not expected within a reasonable time, the interfund balances should be reduced and the amount not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.*

*As reported above, some of the funds’ interfund balances have not changed much or are still outstanding from one year to the next. This may indicate that the amounts are not current or short-term in nature. We recommend the City review the “Due To/From Other Funds” balances to determine if individual funds have incurred loans that are not being repaid within a reasonable time. If so, the City Council should authorize a transfer from the General Fund to those funds.*

### CONCLUSION

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that we would have reported to you.

This report has been prepared solely for the information and use of the Petitioners, Mayor, and City Council Members of the City of Crosby, and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: September 20, 2004