

CITY OF HATTON
HATTON, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

CITY OF HATTON
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CITY OF HATTON
LIST OF OFFICIALS
DECEMBER 31, 2021

CITY COUNCIL

Office

Stu Letcher
Matt Kempel
Ben Naastad
Mark Duncan
Bernie Johnson
Scott Phipps
Curtis Huus

Mayor

EMPLOYEES:

Marci Johnson

City Auditor

Harold J. Rotunda
Certified Public Accountant
INDEPENDENT AUDITOR'S REPORT

To the Governing Board
City of Hatton
Hatton, North Dakota

Opinion

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Hatton, as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the City of Hatton's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major and the aggregate remaining fund information fund of the City of Hatton as of December 31, 2021, and the respective changes in modified cash basis financial position and the cash flows, where applicable, for the year then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinions

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of City of Hatton and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Emphasis of Matter-Basis of Accounting

I 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. My opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Hatton's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation in the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Hatton's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated November 1, 2023, on my considerations of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Fargo, North Dakota
November 1, 2023

CITY OF HATTON
STATEMENT OF NET POSITION-MODIFIED CASH BASIS
DECEMBER 31, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	389,299.56	260,733.17	650,032.73
Total Assets	389,299.56	260,733.17	650,032.73
LIABILITIES			
Long-term liabilities:			-
Total liabilities	-	-	-
NET POSITION			
Restricted for:			
Debt Service	71,665.41		71,665.41
Capital Projects	44,565.38	-	44,565.38
Unrestricted	273,068.77	260,733.17	533,801.94
Total net position	389,299.56	260,733.17	650,032.73

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

CITY OF HATTON

STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2021

		Program Revenues			Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating grants and Contributions	Capital grants and Contributions	Governmental Activities
Governmental activities:					
General government	215,869.87	2,372.00			(213,497.87)
Public safety	64,422.00				(64,422.00)
Highways and streets	70,784.56		43,647.32		(27,137.24)
Economic development	177,051.64				(177,051.64)
Capital outlays	119,452.05		230,006.95		110,554.90
Debt expense	280,968.46			355,065.69	74,097.23
Total Governmental Activities	928,548.58	2,372.00	273,654.27	355,065.69	(297,456.62)
Business-type activities					
Water	112,747.35	174,301.80			61,554.45
Sewer	54,186.42	122,220.09			68,033.67
Garbage	148,561.65	153,406.88			4,845.23
Meter	-				-
Debt expense	127,109.15				(127,109.15)
Capital outlays	198,059.74			97,605.44	(100,454.30)
Total Business-type activities	640,664.31	449,928.77	-	97,605.44	(93,130.10)
Total	1,569,212.89	452,300.77	273,654.27	452,671.13	(390,586.72)
Net expense		Governmental (297,456.62)	Business-type (93,130.10)	Total (390,586.72)	
General Revenues					
Property taxes		94,751.84		94,751.84	
Sales taxes		142,717.37		142,717.37	
Intergovernmental		127,319.73		127,319.73	
Interest income		1,273.71	-	1,273.71	
Debt proceeds		131,475.23		131,475.23	
Other revenue		132,701.03	21,052.47	153,753.50	
Total general revenues		630,238.91	21,052.47	651,291.38	
Transfers in (out)		-	-	-	
Change in Net Position		332,782.29	(72,077.63)	260,704.66	
Net Position- January 1		56,517.27	332,810.80	389,328.07	
Net Position- December 31		389,299.56	260,733.17	650,032.73	

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

CITY OF HATTON
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
DECEMBER 31, 2021

	GENERAL	HIGHWAY	SALES TAX	STREET IMP	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and investments	41,695.65	(20,566.52)	112,436.93	116,230.79	139,502.71	389,299.56
Total Assets	41,695.65	(20,566.52)	112,436.93	116,230.79	139,502.71	389,299.56
LIABILITIES						
Total liabilities	-	-	-	-	-	-
FUND BALANCE						
Restricted for Debt Service				71,665.41	-	71,665.41
Restricted for Capital Projects				44,565.38	-	44,565.38
Assigned for General Government					139,502.71	139,502.71
Assigned for Economic Development			112,436.93			112,436.93
Unassigned	41,695.65	(20,566.52)			-	21,129.13
Total fund balance	41,695.65	(20,566.52)	112,436.93	116,230.79	139,502.71	389,299.56
Total liabilities and fund balance	41,695.65	(20,566.52)	112,436.93	116,230.79	139,502.71	389,299.56

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

CITY OF HATTON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2021

	GENERAL	HIGHWAY	SALES TAX	STREET IMP	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	90,693.13				4,058.71	94,751.84
Sales taxes	-		142,717.37		-	142,717.37
Special Assessments	-	-	-	352,633.87	2,431.82	355,065.69
Intergovernmental	68,991.11	43,647.32	-		288,335.57	400,974.00
Interest	1,273.71		-		-	1,273.71
Charges for services	24,537.07	-			-	24,537.07
Other	17,975.14	1,823.44	35,679.40		55,057.98	110,535.96
Total Revenues	203,470.16	45,470.76	178,396.77	352,633.87	349,884.08	1,129,855.64
Current:						
General government	124,845.89				91,023.98	215,869.87
Public safety	64,422.00				-	64,422.00
Highways and streets	4,469.88	66,314.68			-	70,784.56
Economic development			177,051.64		-	177,051.64
Capital outlays		-		119,452.05	-	119,452.05
Debt Service						-
Principal				125,127.59	-	125,127.59
Interest expense				155,840.87	-	155,840.87
Total Expenditures	193,737.77	66,314.68	177,051.64	400,420.51	91,023.98	928,548.58
Excess revenues (expenditures)	9,732.39	(20,843.92)	1,345.13	(47,786.64)	258,860.10	201,307.06
Other Financing Sources (Uses):						
Transfers in						-
Transfers out						-
Bond proceeds				131,475.23		131,475.23
Total other financing sources and	-	-	-	131,475.23	-	131,475.23
Net change in fund balances	9,732.39	(20,843.92)	1,345.13	83,688.59	258,860.10	332,782.29
Fund balance- beginning	31,963.26	277.40	111,091.80	32,542.20	(119,357.39)	56,517.27
Fund balance- ending	41,695.65	(20,566.52)	112,436.93	116,230.79	139,502.71	389,299.56

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

CITY OF HATTON
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2021

	Water	Sewer	Sanitation	Water Project	Other	Total
ASSETS						
Cash and investments	136,080.29	167,019.22	(38,115.93)	(29,401.78)	25,151.37	260,733.17
Capital assets (net of accumulated depreciation)						-
Total Assets	136,080.29	167,019.22	(38,115.93)	(29,401.78)	25,151.37	260,733.17
LIABILITIES						
Long-term liabilities:						-
Due within one year:						-
Bonds payable					-	-
Notes payable						-
Due after one year:						-
Bonds payable					-	-
Notes payable						-
Total liabilities	-	-	-		-	-
NET POSITION						
Net investment in capital assets	-	-	-		-	-
Restricted for:						-
Capital projects						-
Debt service					-	-
Unrestricted	136,080.29	167,019.22	(38,115.93)	(29,401.78)	25,151.37	260,733.17
Total net position	136,080.29	167,019.22	(38,115.93)	(29,401.78)	25,151.37	260,733.17

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

CITY OF HATTON
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2021

	Water	Sewer	Sanitation	Water Project	Other	Total
OPERATING REVENUE						
Charges for services	174,301.80	122,220.09	153,406.88		-	449,928.77
OPERATING EXPENSES						
Salaries	14,593.11	13,778.86	3,776.03			32,148.00
Payroll taxes	6,666.10	6,666.40	692.30			14,024.80
Professional fees	613.58					613.58
Insurance						-
Contract services			133,114.61			133,114.61
Electricity	4,480.20	2,043.18				6,523.38
Supplies	-	3,267.00				3,267.00
Repairs and maintenance	998.21	21,404.50				22,402.71
Office expense	3,872.35	3,538.11	331.04			7,741.50
Purchased water	68,785.52					68,785.52
Miscellaneous	12,738.28	3,488.37	10,647.67			26,874.32
Total operating expenses	112,747.35	54,186.42	148,561.65	-	-	315,495.42
Operating income (loss)	61,554.45	68,033.67	4,845.23	-	-	134,433.35
NON-OPERATING REVENUE (EXPENSE)						
Grant income				97,605.44		97,605.44
Interest income	-	-				-
Principal	(16,253.00)	(61,000.00)				(77,253.00)
Interest expense	(14,814.58)	(35,041.57)				(49,856.15)
Capital outlay	-	-		(198,059.74)	-	(198,059.74)
Other	14,307.47	6,745.00	-	-	-	21,052.47
Total non-operating rev (exp)	(16,760.11)	(89,296.57)	-	(100,454.30)	-	(206,510.98)
Income (loss) before transfers	44,794.34	(21,262.90)	4,845.23	(100,454.30)	-	(72,077.63)
Transfers in						-
Transfers out						-
Change in net position	44,794.34	(21,262.90)	4,845.23	(100,454.30)	-	(72,077.63)
Net Position- January 1	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	332,810.80
Net Position- December 31	136,080.29	167,019.22	(38,115.93)	(29,401.78)	25,151.37	260,733.17

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

CITY OF HATTON
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2021

	Water	Sewer	Sanitation	Water Project	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	174,301.80	122,220.09	153,406.88	-	-	449,928.77
Payments to suppliers	(98,154.24)	(40,407.56)	(144,785.62)	-	-	(283,347.42)
Payments to employees	(14,593.11)	(13,778.86)	(3,776.03)	-	-	(32,148.00)
Other receipts	14,307.47	6,745.00	-	97,605.44	-	118,657.91
Net cash provided by (used in) operating	75,861.92	74,778.67	4,845.23	97,605.44	-	253,091.26
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	-	-	-	-	-	-
Transfers from other funds	-	-	-	-	-	-
Net cash provided by (used in) noncapit	-	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	-	-	-	(198,059.74)	-	(198,059.74)
Principal paid on capital debt	(27,253.00)	(50,000.00)	-	-	-	(77,253.00)
Interest paid on capital debt	(3,814.58)	(46,041.57)	-	-	-	(49,856.15)
Debt proceeds	-	-	-	-	-	-
Net cash provided by (used in) capital ai	(31,067.58)	(96,041.57)	-	(198,059.74)	-	(325,168.89)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends	-	-	-	-	-	-
Net cash provided by (used in) investing	-	-	-	-	-	-
Net increase (decrease) in cash and cash	44,794.34	(21,262.90)	4,845.23	(100,454.30)	-	(72,077.63)
Balance- beginning of year	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	332,810.80
Balance- end of year	136,080.29	167,019.22	(38,115.93)	(29,401.78)	25,151.37	260,733.17
Reconciliation of operating income (loss) to net cash provided						
by operating activities:						
Operating income (loss)	61,554.45	68,033.67	4,845.23	-	-	134,433.35
Adjustments to reconcile operating income to net cash provided						-
(used) by operating activities:						-
Depreciation expense				-	-	-
Miscellaneous receipts (expense)	14,307.47	6,745.00	-	97,605.44	-	118,657.91
Net cash provided by operating	75,861.92	74,778.67	4,845.23	97,605.44	-	253,091.26

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

CITY OF HATTON
HATTON, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of HATTON (City) have been prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). 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 City's accounting policies are described below.

A. 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 such that exclusion 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. 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 the above criteria the city no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

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: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into two major categories: governmental and proprietary. The City currently has no fiduciary funds.

The City reports the following major governmental funds:

General Fund. The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Sales tax fund. The sales tax fund is used to record the collection of sales taxes and economic development expenses.

Highway Fund. The Highway fund is used to record revenues received for highway maintenance and repair and the related expenses.

Street Improvement. The fund is used to account for the debt proceeds and construction costs related to the project.

The City reports the following major enterprise funds:

Water- accounts for operating activities of the City's water utility services.

Sewer- accounts for operating activities of the City's sewer utility services.

Sanitation- accounts for operating activities of the City's sanitation services

Water Project- The fund is used to account for the debt proceeds and construction costs related to the project.

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements. In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified 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 modified cash basis of accounting, is used as appropriate.

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 presents 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.

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 assets (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 assets.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide 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.

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

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. All government-wide financial statements would be presented on the accrual basis of accounting.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Budgets

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

City taxes must be levied by the governing board on or before the first day of October. The taxes levied must be certified to the County auditor by October 7. The governing body of the City may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the County auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Investments consist of certificates of deposits stated at cost.

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

F. Capital Assets

The City does not maintain fixed asset records.

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long term obligations are not reported in accordance with the modified cash basis of accounting.

H. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

I. Interfund Transactions

In the governmental 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. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

J. Use of estimates

The preparation of financial statements in conformity with the Other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Council did not amend the City budget for 2021 and 2021.

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

NOTE 3 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 institution 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 deposit not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any City, 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.

At December 31, 2021, the City's carrying amount of deposits was \$650,033. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the City to invest in:(1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.(2) 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.(3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.(4) Obligations of the state.

Concentration of Credit Risk

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

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

NOTE 4: PROPERTY TAXES

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

NOTE 5: LONG-TERM DEBT

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

	Payable 2020	Increases	Decreases	Payable 2021	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	3,983,461	131,475	125,128	3,989,809	171,252
BUSINESS-TYPE ACTIVITIES					
Bonds Payable	1,060,000		50,000	1,010,000	55,000
USDA Loan	882,000		16,253	865,747	16,496
Notes payable	100,501		11,000	89,501	11,000
TOTAL	2,042,501		77,253	1,965,248	

BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
Refunding imp- 2012	09/01/2037	2-4.25%	1,010,000
Refunding imp- 1988	09/01/2028	3.00%	89,501

USDA LOAN PAYABLE

Refunding improvement-2020	05/01/2060	2.0%	865,747
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IRF NOTES PAYABLE

	Maturity Date	Interest Rate	Balance Outstanding
Refunding improvement-2018	05/01/2040	2.0%	3,989,809

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

Year Ending December 31	Principal	Interest	Principal	Interest	Principal	Interest
2022	55,000	33,037	171,232	82,532	16,496	12,987
2023	55,000	31,938	178,249	75,515	16,744	12,739
2024	55,000	30,562	181,832	71,933	16,995	12,488
2025	55,000	29,188	185,487	68,278	17,250	12,233
2026	60,000	27,675	189,215	64,549	17,509	11,974
2027-2031	320,000	111,187	1,004,676	264,147	91,563	55,852
2032-2036	380,000	51,688	1,109,787	159,035	98,640	48,775
2037-2041	30,000	1,275	970,863	44,196	106,263	41,152
2042-2046					114,475	32,940
2047-2051					123,323	24,092
2052-2056					132,853	14,562
2057-2060					113,636	4,730
TOTAL	1,010,000	316,550	3,989,809	830,186	865,747	284,524

NOTE 6: TRANSFERS

Transfers are used to 1)move unrestricted revenues to finance various programs 2)move sales tax revenues to fund programs and projects and 3)move revenues from the fund with collection authorization to the debt service funds as debt service principal and interest payments become due. The City had no transfers.

NOTE 7.DEFICIT FUND BALANCE

The following fund balances had deficits at December 31, 2022:

Highway	20,567	Will be eliminated with specials.
Water project	29,402	Will be eliminated with specials.
Sanitation	38,116	Will be eliminated with charges.

NOTE 8: RISK MANAGEMENT

The City 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 and automobile insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence. The State Bonding Fund currently provides the City with blanket fidelity bond coverage for its employees. The State Bonding fund does not currently charge any premium for this coverage. The City has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

CITY OF HATTON

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2021

City of Hatton
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Harold J. Rotunda

Certified Public Accountant

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*

Independent Auditor's Report

Governing Board
City of Hatton
Hatton, North Dakota

I 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, business-type activities, each major fund and the aggregate fund information of the City of Hatton as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated November 1, 2023.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Hatton's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be a significant deficiency (2021-001 and 2021-002).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hatton's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in my audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Fargo, North Dakota
November 1, 2023

CITY OF HATTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-001 Segregation of Duties

Criteria

An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled properly.

Condition

The City has one employee who is responsible for most accounting functions. The city auditor collects monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial reports.

Cause

The City is subject to size and budget constraints limiting the number of personnel within the accounting department

Effect

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation

I recommend the City review its internal controls over accounting functions to determine if additional procedures can be implemented that are cost effective. The Board should constantly be aware of the this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

View of Responsible Officials and Planned Corrective Actions

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

CITY OF HATTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-002 Financial Statement Preparation

Criteria

An appropriate system of internal controls requires that a City make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis of accounting. This requires the City's personnel to maintain a working knowledge of current modified cash basis of accounting required financial statement disclosures.

Condition

The City's personnel prepared periodic financial information for internal use that meets the needs of management and the Council. However, the City currently does not prepare the financial statements, including accompanying note disclosures as required by accounting principles generally accepted in the United States of America. The City elected to have the auditor assist in the preparation of the financial statements and notes.

Cause

The City elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

I recommend the City consider the additional risk of having the auditor assist in the in the preparation of financial statements and note disclosures and consider preparing them in the future. 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.

View of Responsible Officials and Planned Corrective Actions

The City will continue to have the auditor prepare the financial statements. It is currently not cost-effective for management to perform the preparation.