

AUDIT REPORT

CITY OF HAZEN
Hazen, North Dakota

For the Year Ended December 31, 2019

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAZEN
Hazen, North Dakota

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CITY OF HAZEN
Hazen, North Dakota

CITY OFFICIALS

Jerry Obenauer	Commission President
Nancy Wolf	Commission Vice President
Jason Haack	Commissioner
Danial Pillar	Commissioner
Casey Stern	Commissioner
Monte Erhardt	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hazen
Hazen, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hazen, Hazen, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazen, Hazen, North Dakota, as of December 31, 2019, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The budgeting comparison information and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The budgeting comparison information and the schedule of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 auditing standards generally accepted in the United States of America. In our opinion, the budgeting comparison information and the schedule of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2020 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehner

Rath and Mehner, P.C.

Bismarck, North Dakota

February 14, 2020

CITY OF HAZEN
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	2,757,930.09	1,178,242.73	3,936,172.82
Capital Assets (net of accumulated depreciation):			
Land	562,410.00	80,000.00	642,410.00
Construction in Progress	6,279,600.00		6,279,600.00
Buildings and Infrastructure	5,590,330.00	1,144,249.00	6,734,579.00
Machinery and Vehicles	748,775.00	325,924.00	1,074,699.00
Total Capital Assets	13,181,115.00	1,550,173.00	14,731,288.00
Total Assets	15,939,045.09	2,728,415.73	18,667,460.82
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Capital Lease Payable	24,564.05		24,564.05
Special Assessment Bonds Payable	331,067.42		331,067.42
Revenue Bonds Payable		70,000.00	70,000.00
Due After One Year:			
Capital Lease Payable	25,886.17		25,886.17
Special Assessment Bonds Payable	9,126,743.03		9,126,743.03
Revenue Bonds Payable		316,000.00	316,000.00
Compensated Absences Payable	94,570.00		94,570.00
Total Liabilities	9,602,830.67	386,000.00	9,988,830.67
NET POSITION:			
Net Investment in Capital Assets	3,672,854.33	1,164,173.00	4,837,027.33
Restricted for:			
Special Purposes	1,152,961.01		1,152,961.01
Debt Service	873,106.82	10,000.00	883,106.82
Water Meters		210,304.75	210,304.75
Lift Station		166,606.56	166,606.56
Unrestricted	637,292.26	791,331.42	1,428,623.68
Total Net Position	6,336,214.42	2,342,415.73	8,678,630.15

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Functions/Programs					
Primary Government:					
Governmental Activities:					
General Government	481,301.87	52,151.95		(429,149.92)	(429,149.92)
Public Safety	495,379.08	5,000.00		(490,379.08)	(490,379.08)
Streets and Public Works	991,110.71	36,183.17	143,032.42	(811,895.12)	(811,895.12)
Urban and Economic Development	271,964.79	93,087.01		(178,877.78)	(178,877.78)
Culture and Recreation	199,144.91	25,096.50	3,518.77	(170,529.64)	(170,529.64)
Conservation of Natural Resources	38,022.03			(38,022.03)	(38,022.03)
Other	210,206.14	31,238.55	93,469.00	(85,498.59)	(85,498.59)
Interest on Long-Term Debt	205,269.02		425,135.05	219,866.03	219,866.03
Total Governmental Activities	2,892,398.55	242,757.18	665,155.24	(1,984,486.13)	(1,984,486.13)
Business-Type Activities:					
Water	699,931.17	567,285.17			(132,646.00)
Sewer	166,774.47	161,253.02			(5,521.45)
Garbage	252,788.93	233,163.72			(19,625.21)
Total Business-Type Activities	1,119,494.57	961,701.91			(157,792.66)
Total Primary Government	4,011,893.12	1,204,459.09	665,155.24	(1,984,486.13)	(157,792.66)
General Revenues:					
Taxes:					
Property taxes; levied for general purposes				398,585.59	398,585.59
Property taxes; levied for special purposes				163,084.94	163,084.94
Cigarette taxes				6,347.93	6,347.93
Coal severance taxes				461,007.70	461,007.70
Coal conversion taxes				218,083.90	218,083.90
City sales taxes				246,596.56	246,596.56
Restaurant and lodging taxes				27,786.78	27,786.78
Intergovernmental revenue not restricted to specific programs				162,287.74	162,287.74
Earnings on investments and other revenue				184,620.97	2,973.75
Total General Revenues				1,868,402.11	2,973.75
Change in Net Position				(116,084.02)	(154,818.91)
Net Position - January 1				6,452,298.44	2,497,234.64
Net Position - December 31				6,336,214.42	2,342,415.73

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

CITY OF HAZEN
Hazen, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2019

	Major Funds					
	General	City Sales Tax	Hazen Street Improvement Project 2014-1	Hazen Street Improvement Project 2016-1	Hazen Street Improvement Project 2018-1	Total Governmental Funds
ASSETS:						
Cash, Cash Equivalents and Investments	283,782.93	779,633.43	415,343.34			1,279,170.39
Interfund Receivables	708,325.93					708,325.93
Total Assets	992,108.86	779,633.43	415,343.34	-0-	-0-	3,466,256.02
LIABILITIES AND FUNDS BALANCES						
Liabilities:						
Interfund Payables				397,950.72	281,596.71	708,325.93
Fund Balances:						
Restricted for:						
Streets and Public Works		779,633.43				83,493.09
Urban and Economic Development						124,392.99
Culture and Recreation						104,996.22
Emergency Purposes						6,424.74
Cemetery						54,020.54
Debt Service			415,343.34			873,106.82
Assigned to:						
Public Safety	219,601.01					219,601.01
Other Purposes	79,117.96					147,433.05
Water and Sewer 93-1	80,862.45					80,862.45
Building and Equipment	341,257.49					642,266.54
Street Repairs						78,755.19
Technology	69,280.00					69,280.00
Bike Path	285.77					285.77
Forestry	40,025.00			(397,950.72)	(281,596.71)	40,025.00
Unassigned	161,679.18					(546,646.75)
Total Fund Balances	992,108.86	779,633.43	415,343.34	(397,950.72)	(281,596.71)	2,757,930.09
Total Liabilities and Fund Balances	992,108.86	779,633.43	415,343.34	-0-	-0-	3,466,256.02

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

CITY OF HAZEN
Hazen, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2019

Total Fund Balances for Governmental Funds 2,757,930.09

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

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

Cost of Capital Assets	17,594,223.00	
Less Accumulated Depreciation	(4,413,108.00)	
Net Capital Assets		13,181,115.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2019 are:

Capital Lease Payable	(50,450.22)	
Special Assessments Bonds Payable	(9,457,810.45)	
Compensated Absences Payable	(94,570.00)	
Total Long-Term Liabilities		(9,602,830.67)

Total Net Position of Governmental Activities	6,336,214.42
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The accompanying notes are an integral part of these financial statements.

CITY OF HAZEN
Hazen, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2019

Major Funds

	General	City Sales Tax	Hazen Street Improvement Project 2014-1	Hazen Street Improvement Project 2016-1	Hazen Street Improvement Project 2018-1	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	394,404.73	122,888.73				313,760.41	831,053.87
Special Assessments			158,020.68	152,246.13		114,868.24	425,135.05
Licenses, Permits and Fees	52,151.95						52,151.95
Intergovernmental	846,488.82						1,087,747.46
Charges for Services	36,183.17					241,258.64	67,421.72
Fines and Forfeits	5,000.00					31,238.55	5,000.00
Miscellaneous	197,366.60	4,166.05				106,271.83	307,804.48
Total Revenues	1,531,595.27	127,054.78	158,020.68	152,246.13		807,397.67	2,776,314.53
Expenditures:							
Current:							
General Government	461,994.87						461,994.87
Public Safety	454,041.08						454,041.08
Streets and Public Works	380,942.33				3.71	292,188.67	673,134.71
Urban and Economic Development	83,050.91					188,913.88	271,964.79
Culture and Recreation	157,829.01					39,582.90	197,411.91
Conservation of Natural Resources	38,022.03						38,022.03
Other						174,037.14	174,037.14
Capital Outlay					797,585.00	106,227.00	903,812.00
Debt Service:							
Principal Retirement			185,000.00	67,750.70	342,533.49	120,853.04	716,137.23
Interest and Service Charges			47,735.00	21,646.74	110,144.23	25,743.05	205,269.02
Total Expenditures	1,575,880.23		232,735.00	89,397.44	1,250,266.43	947,545.68	4,095,824.78
Excess (Deficiency) of Revenues Over Expenditures	(44,284.96)	127,054.78	(74,714.32)	62,848.69	(1,250,266.43)	(140,148.01)	(1,319,510.25)

<u>Other Financing Sources (Uses):</u>					
Transfers In	31,000.00		9,972.17	176,511.50	443,822.53
Transfers Out	(31,000.00)	(401,822.53)		(11,000.00)	(443,822.53)
Proceeds from Capital Lease				77,727.00	77,727.00
Special Assessment Bonds Issued				814,396.67	814,396.67
Total Other Financing Sources (Uses)		(401,822.53)	9,972.17	243,238.50	892,123.67
Net Change in Fund Balances	(44,284.96)	(274,767.75)	72,820.86	103,090.49	(427,386.58)
Fund Balance - January 1	1,036,393.82	1,054,401.18	(470,771.58)	1,147,301.40	3,185,316.67
Fund Balance - December 31	992,108.86	779,633.43	(397,950.72)	1,250,391.89	2,757,930.09
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The accompanying notes are an integral part of these financial statements.

CITY OF HAZEN
Hazen, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

Net Change in Fund Balances - Total Governmental Funds	(427,386.58)
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	903,812.00	
Current Year Depreciation Expense	(406,377.00)	497,435.00

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded repayment of debt.

Debt Proceeds	(892,123.67)	
Repayment of Debt	716,137.23	(175,986.44)

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

Net Increase in Compensated Absences	(10,146.00)
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Change in Net Position of Governmental Activities	(116,084.02)
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The accompanying notes are an integral part of these financial statements.

CITY OF HAZEN
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Fund
December 31, 2019

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	397,844.38	348,746.65	431,651.70	1,178,242.73
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Land		70,000.00	10,000.00	80,000.00
Buildings and Infrastructure	816,947.00	327,302.00		1,144,249.00
Machinery and Equipment	86,187.00	110,609.00	129,128.00	325,924.00
Total Noncurrent Assets	903,134.00	507,911.00	139,128.00	1,550,173.00
Total Assets	1,300,978.38	856,657.65	570,779.70	2,728,415.73
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	55,000.00	15,000.00		70,000.00
<u>Noncurrent Liabilities:</u>				
Revenue Bonds Payable	240,000.00	76,000.00		316,000.00
Total Liabilities	295,000.00	91,000.00		386,000.00
<u>NET POSITION</u>				
Net Investment in Capital Assets	608,134.00	416,911.00	139,128.00	1,164,173.00
Restricted for:				
Debt Service		10,000.00		10,000.00
Water Meters	210,304.75			210,304.75
Lift Station		166,606.56		166,606.56
Unrestricted	187,539.63	172,140.09	431,651.70	791,331.42
Total Net Position	1,005,978.38	765,657.65	570,779.70	2,342,415.73

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Fund
For the Year Ended December 31, 2019

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	531,852.37			531,852.37
Sewer Collections		137,897.85		137,897.85
Garbage Collections			233,163.72	233,163.72
Other Collections	35,432.80	23,355.17		58,787.97
Total Operating Revenues	567,285.17	161,253.02	233,163.72	961,701.91
<u>Operating Expenses:</u>				
Salaries and Benefits	108,881.83	72,587.88	109,967.10	291,436.81
Workers Comp.	460.86	307.23	1,600.77	2,368.86
Health Insurance	33,588.08	22,651.32	45,396.32	101,635.72
Liability Insurance	447.00	212.00	2,631.00	3,290.00
Utilities	7,193.64	7,639.20		14,832.84
Chemicals	149.25	2,538.98		2,688.23
Engineering Fees	8,137.30	250.00		8,387.30
Gas and Oil	2,597.03	483.76	9,308.71	12,389.50
Office Supplies	159.32	69.33		228.65
Water Costs	399,051.86			399,051.86
Tipping Fees			53,086.98	53,086.98
Garbage Containers			4,883.00	4,883.00
Publishing, Printing and Postage	2,265.90	1,846.33	2,835.88	6,948.11
Dues and Memberships	440.00	185.00		625.00
Telephone	1,081.47			1,081.47
Operations, Repairs and Maintenance	9,228.78	22,470.87	820.36	32,520.01
Excavation	14,290.29			14,290.29
Weed Spray		1,800.00		1,800.00
Truck Repairs			3,612.36	3,612.36
Computer Expense	4,945.44	3,616.35		8,561.79
Miscellaneous	1,666.62	1,360.22	71.45	3,098.29
Depreciation	94,984.00	25,641.00	18,575.00	139,200.00
Total Operating Expenses	689,568.67	163,659.47	252,788.93	1,106,017.07
Operating Income (Loss)	(122,283.50)	(2,406.45)	(19,625.21)	(144,315.16)
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	252.09			252.09
Miscellaneous Revenues	2,174.53	547.13		2,721.66
Debt Service - Interest and Service Charges	(10,362.50)	(3,115.00)		(13,477.50)
Total Non-Operating Revenues (Expenses)	(7,935.88)	(2,567.87)		(10,503.75)
Change in Net Position	(130,219.38)	(4,974.32)	(19,625.21)	(154,818.91)
Net Position - January 1	1,136,197.76	770,631.97	590,404.91	2,497,234.64
Net Position - December 31	1,005,978.38	765,657.65	570,779.70	2,342,415.73

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2019

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Cash flows from operating activities:</u>				
Receipts from customers	567,285.17	161,253.02	233,163.72	961,701.91
Payments to suppliers and employees	(594,584.67)	(138,018.47)	(234,213.93)	(966,817.07)
Net cash provided (used) by operating activities	(27,299.50)	23,234.55	(1,050.21)	(5,115.16)
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts	2,174.53	547.13		2,721.66
<u>Cash flows from capital and related financing activities:</u>				
Principal payments on revenue bonds	(55,000.00)	(14,000.00)		(69,000.00)
Interest payments and service charges	(10,362.50)	(3,115.00)		(13,477.50)
Net cash provided (used) by capital and related financing activities	(65,362.50)	(17,115.00)		(82,477.50)
<u>Cash flows from investing activities:</u>				
Interest income	252.09			252.09
Net increase in cash and cash equivalents	(90,235.38)	6,666.68	(1,050.21)	(84,618.91)
Cash and cash equivalents, January 1	488,079.76	342,079.97	432,701.91	1,262,861.64
Cash and cash equivalents, December 31	397,844.38	348,746.65	431,651.70	1,178,242.73
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(122,283.50)	(2,406.45)	(19,625.21)	(144,315.16)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	94,984.00	25,641.00	18,575.00	139,200.00
Net cash provided (used) by operating activities	(27,299.50)	23,234.55	(1,050.21)	(5,115.16)
=====				

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Custodial Funds
December 31, 2019

	Custodial Funds
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	400.40
	=====
<u>Liabilities:</u>	
Due to Other Governments	400.40
	=====

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Changes in Fiduciary Assets and Liabilities
Modified Cash Basis - Custodial Funds
December 31, 2019

	Custodial Funds
<u>Additions:</u>	
Property tax collections for other governments	7,345.28
Sales tax collections for other governments	122,888.70
State Aid collections for other governments	37,228.19
Total Additions	167,462.17
<u>Deductions:</u>	
Payments of property tax to other governments	7,500.00
Payments of sales tax to other governments	122,888.70
Payments of state aid to other governments	37,228.19
Total Deductions	167,616.89
Net Change in Assets and Liabilities	(154.72)
Assets and Liabilities - January 1	555.12
Assets and Liabilities - December 31	400.40
	=====

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

CITY OF HAZEN
Hazen, North Dakota

Notes to the Financial Statements
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hazen operates under a city commission form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the city.

Based on these criteria, there are no component units to be included within the City of Hazen as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of Hazen. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

The city reports the following major governmental funds:

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

City Sales Tax. This fund accounts for a portion of the city's sales tax collections used for city infrastructure improvements and to provide property tax relief.

Hazen Street Improvement Project 2014-1. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2014.

Hazen Street Improvement Project 2016-1. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2016 and the Definitive Warrant, Series 2016A.

Street Improvement Project 2018-1. This fund accounts for the proceeds from the Definitive Improvement Warrant, Series 2017, used to finance a street improvement project.

The city reports the following major enterprise funds:

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

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

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

The city reports the following type of fiduciary fund:

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings and Infrastructure	20 to 75 years
Machinery and Vehicles	5 to 20 years

F. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the government-wide statement of net position. Compensation for unused vacation leave and 25% of vested sick leave will be granted to all full-time employees upon termination of employment with the city.

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

G. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Equity

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

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

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

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

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

I. Interfund Transactions

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

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

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

J. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2019 the city's carrying amount of deposits was \$3,936,573 and the bank balance was \$3,954,115. Of the bank balance, \$478,270 was covered by Federal Depository Insurance. The remaining balance of \$3,475,845 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2019 the city held certificates of deposit in the amount of \$672,429, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2019 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	708,325.93	
Hazen Street Improvement Project 2016-1		397,950.72
Hazen Street Improvement Project 2018-1		281,596.71
Transportation - Operating		20,394.23
City Share of Special Assessments		8,384.27

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	562,410			562,410
Construction in Progress	5,482,015	797,585		6,279,600
Total	6,044,425	797,585		6,842,010
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	8,586,301			8,586,301
Machinery and Vehicles	2,124,685	106,227	65,000	2,165,912
Total	10,710,986	106,227	65,000	10,752,213
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	2,730,706	265,265		2,995,971
Machinery and Vehicles	1,341,025	141,112	65,000	1,417,137
Total	4,071,731	406,377	65,000	4,413,108
Total capital assets being depreciated, net	6,639,255	(300,150)		6,339,105
Governmental Activities Capital Assets, Net	12,683,680	497,435	-0-	13,181,115
<hr/>				
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	80,000			80,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,475,453			3,475,453
Machinery and Vehicles	879,586			879,586
Total	4,355,039			4,355,039
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	2,247,818	83,386		2,331,204
Machinery and Vehicles	497,848	55,814		553,662
Total	2,745,666	139,200		2,884,866
Total capital assets being depreciated, net	1,609,373	(139,200)		1,470,173
Business-type Activities Capital Assets, Net	1,689,373	(139,200)	-0-	1,550,173
<hr/>				

Depreciation expense was charged to functions/programs of the city as follows:

<u>Governmental Activities:</u>	
General Government	9,161
Public Safety	41,338
Streets and Public Works	317,976
Culture and Recreation	1,733
Other	36,169
Total	<u>406,377</u>
	=====
<u>Business-type Activities:</u>	
Water	94,984
Sewer	25,641
Garbage	18,575
Total	<u>139,200</u>
	=====

Note 6 CAPITAL LEASE PAYABLE

The city has entered into the following lease agreement.

\$77,727.00 lease-purchase of a John Deere 5085E Utility Tractor, due in annual installment of \$27,277.37 through May 6, 2021; payments include interest at 5.25%.	50,450.22
	=====

This lease agreement qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term). The following is a schedule of the future minimum lease payments under this capital lease, and the net present value of the minimum lease payments at December 31, 2019:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental</u> <u>Activities</u> <u>Lease</u> <u>Payments</u>
2020	27,277.37
2021	27,277.37
Total minimum lease payments	<u>54,554.74</u>
Less: amount representing interest	(4,104.52)
Present value of future minimum lease payments	<u>50,450.22</u>
	=====

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2019, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Capital Lease		77,277	27,277	50,450	24,564
Special Assmt.					
Bonds	9,332,274	814,396	688,860	9,457,810	331,067
Comp. Absences *	84,424	10,146		94,570	
Total	9,416,698	901,819	716,137	9,602,830	355,631
	=====	=====	=====	=====	=====

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

Business-type Activities (Proprietary Funds):

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds	455,000	-0-	69,000	386,000	70,000
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2019 consists of the following:

Governmental Activities:

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the construction and/or improvement of streets, flood protection and water and sewer lines. Special assessment bonds outstanding at December 31, 2019 are as follows:

\$530,000 Refunding Improvement Bonds of 2010; due in annual installments of \$35,000 to \$40,000 through May 1, 2025; interest is from 3.1% to 3.75%.	205,000.00
\$70,000 Improvement Warrants of 2011; due in annual installments of \$10,000 through May 1, 2021; interest is at 2.75%.	20,000.00
\$178,494 Improvement Warrants of 2011; due in annual installments of \$8,000 to \$11,000 through September 1, 2031; interest is at 2.50%.	118,000.00
\$429,792.62 Promissory Note of 2013; due in annual installments of \$37,452.81 through September 3, 2029; interest is at 3.50%.	308,970.67
\$2,215,000 Refunding Improvement Bonds of 2014; due in annual installments of \$185,000 through May 1, 2028; interest is from 1.6% to 4%.	1,665,000.00
\$720,000 Refunding Improvement Bonds of 2016; due in annual installments of \$45,000 to \$55,000 through May 1, 2031; interest is at 1.75%.	585,000.00
\$546,808.26 Definitive Improvement Warrant, Series 2016A; due in annual installments of \$32,645.19 through September 1, 2036; interest is at 2%.	466,537.65
Total Special Assessment Bonds	3,368,508.32
	=====

The annual requirements to amortize the outstanding special assessment bond debt are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	331,067.42	85,951.83
2021	335,148.12	76,987.38
2022	326,594.91	69,055.59
2023	328,085.67	61,031.08
2024	330,621.81	52,637.44
2025-2029	1,374,711.09	130,315.08
2030-2034	278,896.76	18,029.19
2035-2036	63,382.54	1,907.84
Total	3,368,508.32	495,915.43
	=====	=====

As allowed by NDCC 6-09-49, the city has also received funding from the Infrastructure Revolving Loan Program from the Bank of North Dakota. The city is in the process of a street improvement project and has issued the Definitive Improvement Warrant, Series 2017, in the amount of \$9,924,650. As of December 31, 2019, the city had requested drawdowns of \$6,432,096.59 and repaid principal of \$342,794.46. The project was not completed as of December 31, 2019 and a final debt service repayment schedule is not yet available since the city had not received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2019 was \$6,089,302.13. \$3,492,553.41 is still available at December 31, 2019.

Business-type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2019 are as follows:

\$1,000,000 Water Improvement Revenue Bonds of 2004; due in annual installments of \$55,000 to \$60,000 through September 1, 2024; interest is at 2.5%.	295,000.00
\$276,120 Sewer Improvement Revenue Bonds of 2005; due in annual installments of \$15,000 to \$16,000 through September 1, 2025; interest is at 2.5%.	91,000.00
Total Revenue Bonds	386,000.00
	=====

The annual requirements to amortize the outstanding revenue bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	70,000.00	9,650.00
2021	75,000.00	7,900.00
2022	75,000.00	6,025.00
2023	75,000.00	4,150.00
2024	75,000.00	2,275.00
2025	16,000.00	400.00
Total	386,000.00	30,400.00
	=====	=====

Note 8 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2019:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General - Police Department - Vehicle Reserve	6,000.00	
General - Fire Department - Truck Reserve	25,000.00	
General - Operating		31,000.00
Highway - Equipment Reserve	6,000.00	
Highway - Operating		6,000.00
Transportation - Vehicle Reserve	5,000.00	
Transportation - Operating		5,000.00
To set-aside funds for future reserves.		
Hazen Street Improvement Project 2016-1	9,972.17	
Hazen Street Improvement Project 2018-1	226,338.86	
Hazen Sales Tax		236,311.03
City's buydown of special assessments.		
Highway - Operating	165,511.50	
Hazen Sales Tax		165,511.50
To subsidize expenditures.		

Note 9 DEFICIT FUND BALANCES

The following funds had a deficit balance at December 31, 2019:

<u>Special Revenue Funds</u>	
Transportation - Operating	(20,394.23)
City Share of Special Assessments	(8,384.27)
<u>Debt Service Fund</u>	
Hazen Street Improvement Project 2016-1	(397,950.72)
<u>Capital Projects Fund</u>	
Hazen Street Improvement Project 2018-1	(281,596.71)
<u>Agency Fund</u>	
Senior Citizens	(6.96)

The city plans to eliminate these deficits with future revenue collections and/or transfers from other funds.

Note 10 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$2,115,780 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 11 PENSION PLAN

The city provides benefits for all of its full-time employees through a defined contribution plan with Nationwide Retirement Solutions. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 7% of the employee's gross salary for the year. During the year ended December 31, 2019, the city contributed \$56,727.11.

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	362,359.00	362,359.00	394,404.73	32,045.73
Licenses, Permits and Fees	9,190.00	9,190.00	52,151.95	42,961.95
Intergovernmental	870,400.00	870,400.00	846,488.82	(23,911.18)
Charges for Services	36,620.00	36,620.00	36,183.17	(436.83)
Fines and Forfeits	1,800.00	1,800.00	5,000.00	3,200.00
Miscellaneous	237,695.00	237,695.00	197,366.60	(40,328.40)
Total Revenues	1,518,064.00	1,518,064.00	1,531,595.27	13,531.27
Expenditures:				
Current:				
General Government	620,799.00	620,799.00	461,994.87	158,804.13
Public Safety	512,398.00	512,398.00	454,041.08	58,356.92
Streets and Public Works	463,508.00	463,508.00	380,942.33	82,565.67
Urban and Economic Development	100,257.00	100,257.00	83,050.91	17,206.09
Culture and Recreation	128,784.00	128,784.00	157,829.01	(29,045.01)
Conservation of Natural Resources	82,133.00	82,133.00	38,022.03	44,110.97
Total Expenditures	1,907,879.00	1,907,879.00	1,575,880.23	331,998.77
Excess (Deficiency) of Revenues Over Expenditures	(389,815.00)	(389,815.00)	(44,284.96)	345,530.04
Other Financing Sources (Uses):				
Transfers In	200,000.00	200,000.00	31,000.00	(169,000.00)
Transfers Out			(31,000.00)	(31,000.00)
Total Other Financing Sources (Uses)	200,000.00	200,000.00		(200,000.00)
Net Change in Fund Balances	(189,815.00)	(189,815.00)	(44,284.96)	145,530.04
Fund Balance - January 1	1,036,393.82	1,036,393.82	1,036,393.82	
Fund Balance - December 31	846,578.82	846,578.82	992,108.86	145,530.04

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City Sales Tax Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	109,670.00	126,235.00	122,888.73	(3,346.27)
Miscellaneous	820.00	820.00	4,166.05	3,346.05
Total Revenues	110,490.00	127,055.00	127,054.78	(0.22)
<u>Expenditures:</u>				
Current:				
Culture and Recreation	250,000.00	250,000.00		250,000.00
Excess (Deficiency) of Revenues Over Expenditures	(139,510.00)	(122,945.00)	127,054.78	249,999.78
<u>Other Financing (Uses):</u>				
Transfers Out			(401,822.53)	(401,822.53)
Net Change in Fund Balances	(139,510.00)	(122,945.00)	(274,767.75)	(151,822.75)
Fund Balance - January 1	1,054,401.18	1,054,401.18	1,054,401.18	
Fund Balance - December 31	914,891.18	931,456.18	779,633.43	(151,822.75)
	=====			

CITY OF HAZEN
Hazen, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the city's budget for the year ending December 31, 2019:

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
<u>Estimated Revenues</u>			
<u>Special Revenue Funds</u>			
City Sales Tax	110,490	16,565	127,055
Highway	150,990	233,798	384,788
Sp. Assess. Deficiency	30,560	14,324	44,884
Library	45,289	12,305	57,594
Cemetery	500	202	702
<u>Debt Service Fund</u>			
SID 2014-1	147,690	10,331	158,021
SID 2016-1	91,470	70,749	162,219
S-2009 Sanitary Bore	6,000	15,289	21,289
Flood Protection	43,190	1,372	44,562
W&S Dist. 2013-1	27,460	8,769	36,229
<u>Capital Projects Fund</u>			
SID 2018-1	230,000	1,040,736	1,270,736
<u>Appropriations</u>			
<u>Special Revenue Funds</u>			
City Sales Tax	250,000	76,823	326,823
Highway	235,463	128,596	364,059
Visitors Promotion	33,970	184	34,154
HCD - City Enterprise	123,955	1,045	125,000
<u>Debt Service Funds</u>			
Sewer Main Repl.	11,700	80	11,780
<u>Capital Projects Fund</u>			
SID 2018-1	265,000	989,767	1,255,267

CITY OF HAZEN
Hazen, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2019

	Balance 1-1-19	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-19
<u>Major Governmental Funds</u>						
<u>General Fund</u>						
Operating	238,491.06	1,530,068.35		31,000.00	1,575,880.23	161,679.18
Building & Equip. - Reserve	340,006.64	1,250.85				341,257.49
Water & Sewer 93-1 Reserve	80,599.62	262.83				80,862.45
Unemployment Reserve	29,117.96					29,117.96
Telecommunication Radio Reserve	30,000.00					30,000.00
Forestry Reserve	40,025.00					40,025.00
Bike Path Reserve	285.77					285.77
Liability Insurance Reserve	20,000.00					20,000.00
Technology Reserve	69,280.00					69,280.00
Police Department						
- Investigations Reserve	3,524.32	13.24				3,537.56
Police Department						
- Vehicle Reserve	31,256.38		6,000.00			37,256.38
Fire Dept. - Truck Reserve	131,532.07		25,000.00			156,532.07
Fire Dept. - Siren Reserve	9,000.00					9,000.00
Safety Saves Reserve	13,275.00					13,275.00
Total General Fund	1,036,393.82	1,531,595.27	31,000.00	31,000.00	1,575,880.23	992,108.86
City Sales Tax	1,054,401.18	127,054.78		401,822.53		779,633.43
Hazen Street Improvement						
Project 2014-1	490,057.66	158,156.88			232,871.20	415,343.34
Hazen Street Improvement						
Project 2016-1	(470,771.58)	152,246.13	9,972.17		89,397.44	(397,950.72)
Hazen Street Improvement						
Project 2018-1	(72,065.81)	814,396.67	226,338.86		1,250,266.43	(281,596.71)
Total Major Governmental Funds	2,038,015.27	2,783,449.73	267,311.03	432,822.53	3,148,415.30	1,507,538.20
<u>Non-Major Governmental Funds</u>						
<u>Highway Fund</u>						
Operating	19,514.41	219,276.49	165,511.50	6,000.00	347,965.45	50,336.95
Pickup Reserve	30,000.00					30,000.00
Equipment Reserve	200,687.08	639.97	6,000.00			207,327.05
Building Reserve	5,000.00					5,000.00
<u>Transportation Fund</u>						
Operating	(25,305.53)	154,461.33		5,000.00	144,550.03	(20,394.23)
Building Reserve	18,500.00					18,500.00
Vehicle Reserve	35,182.00		5,000.00			40,182.00
City Share of Special Assess.	(5,355.61)	26,098.45			29,127.11	(8,384.27)
Special Assessment Deficiency	128,879.61	42,655.10				171,534.71
Reserve for City Lots	68,315.09					68,315.09
Reserve for Fayette Drive	78,755.19					78,755.19
Emergency	1,602.18	4,822.56				6,424.74
Job Development		29,760.86			29,760.86	
Library	82,385.50	62,193.62			39,582.90	104,996.22

(continued)

CITY OF HAZEN
Hazen, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2019
(continued)

	Balance 1-1-19	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-19
Non-Major Gov. Funds (continued)						
Cemetery	53,679.33	701.21			360.00	54,020.54
Urban Renewal	5,629.61					5,629.61
Visitors Promotions	6,366.24	27,786.78			34,153.02	0.00
HCD - City Enterprises	119,630.32	124,133.06			125,000.00	118,763.38
Highway Special Distribution	33,156.14					33,156.14
Street Improvement 2004-1 & 2						
Street Improvement 2005-1 & 2	308.67					308.67
S-2009 Sanitary Bore	62,127.62	21,288.59			15,150.00	68,266.21
Flood Protection District	69,345.89	44,561.06			54,936.50	58,970.45
Sanitary Sewer Main Replacement	56,328.06	12,790.32			11,780.00	57,338.38
Elbowoods W/S Improvement District 2013-1	102,569.60	36,228.27			37,452.81	101,345.06
Total Non-Major Governmental	1,147,301.40	807,397.67	176,511.50	11,000.00	869,818.68	1,250,391.89
Total Governmental Funds	3,185,316.67	3,590,847.40	443,822.53	443,822.53	4,018,233.98	2,757,930.09
Major Enterprise Funds						
<u>Water Fund</u>						
Operating	163,668.03	549,878.17			659,947.17	53,599.03
Building & Equip. Reserve	58,325.00					58,325.00
Water Treatment Plant Reserves	30,000.00					30,000.00
Meter Reserves	190,471.13	19,833.62				210,304.75
Equipment/Generator Reserve	8,000.00					8,000.00
Vehicle Reserve	17,615.60					17,615.60
Storage Tank Reserve	20,000.00					20,000.00
<u>Sewer Fund</u>						
Operating	99,518.64	148,844.52			155,133.47	93,229.69
Equipment Reserve	8,500.00					8,500.00
Sewer Mains & Lagoon Reserves	60,000.00					60,000.00
Vehicle Reserve	10,410.40					10,410.40
Debt Service Reserve	10,000.00					10,000.00
Lift Station Reserve	153,650.93	12,955.63				166,606.56
<u>Garbage Fund</u>						
Operating	114,743.31	233,163.72			234,213.93	113,693.10
Truck Reserve	257,958.60					257,958.60
Container Reserve	50,000.00					50,000.00
Safety Reserve	10,000.00					10,000.00
Total Major Enterprise Funds	1,262,861.64	964,675.66			1,049,294.57	1,178,242.73
<u>Custodial Funds</u>						
Recreation	562.08	7,345.28			7,500.00	407.36
Senior Citizens	(6.96)					(6.96)
Hazen Park District		160,116.89			160,116.89	
Total Custodial Funds	555.12	167,462.17			167,616.89	400.40
Total All Funds	4,448,733.43	4,722,985.23	443,822.53	443,822.53	5,235,145.44	3,936,573.22

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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 Hazen
Hazen, 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 Hazen, Hazen, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated February 14, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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's Response to Findings

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

Purpose of this Report

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

Rath and Mehner

Rath and Mehner, P.C.

Bismarck, North Dakota

February 14, 2020

CITY OF HAZEN
Hazen, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2019

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? ☐ Yes ☒ No

* Significant deficiency(ies) identified? ☒ Yes ☐ None Reported

Noncompliance Material to financial statements noted? ☐ Yes ☒ No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2019-001 Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Condition: The city has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

Cause: The city does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The city is aware of the condition and segregates duties whenever possible.

2. 2019-002 Financial Statement Preparation

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The city's financial statements, including the accompanying note disclosures, are prepared by the city's external auditors.

Cause: The city feels it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and review and approve them prior to distribution.

Views of Responsible Officials: The city will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.