

CITY OF HANKINSON, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

CITY OF HANKINSON, NORTH DAKOTA

TABLE OF CONTENTS
December 31, 2019 and 2018

	<u>Page(s)</u>
Official Directory	1
INDEPENDENT AUDITOR’S REPORT	2 – 3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Modified Cash Basis	4 – 5
Statement of Activities – Modified Cash Basis	6 – 7
Balance Sheet – Governmental Funds – Modified Cash Basis	8 – 9
Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Position – Modified Cash Basis	10
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – Modified Cash Basis	11 – 12
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balance to the Statements of Activities – Modified Cash Basis	13
Statement of Net Position – Proprietary Funds – Modified Cash Basis	14 – 15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis	16 – 17
Statement of Cash Flows – Proprietary Funds – Modified Cash Basis	18 – 19
Notes to Financial Statements	20 – 34
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund – Modified Cash Basis	35 – 36
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 <i>GOVERNMENT AUDITING STANDARDS</i>	37 – 38
Schedule of Current Year Findings	39 – 40
Summary Schedule of Prior Year Findings	41

CITY OF HANKINSON, NORTH DAKOTA

OFFICIAL DIRECTORY
December 31, 2019

Jordan Krump	President
Joline O'Hara	Vice President
Michelle Roeder	Council Member
Joel Bladow	Council Member
Jeremy Steffens	Council Member
Jeremy Heins	Council Member
Adam Ward	Mayor
Kristi Kelley	Auditor



INDEPENDENT AUDITOR'S REPORT

City Council
City of Hankinson, 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 Hankinson, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City of Hankinson's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hankinson, as of December 31, 2019 and 2018, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof for the years then ended on the 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 a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Correction of Errors

As discuss in Note 9 to the financial statements, the 2017 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hankinson's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2023 on our consideration of the City of Hankinson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hankinson's internal control over financial reporting and compliance.



Nadine Julson, LLC
Wahpeton, North Dakota
March 5, 2023

CITY OF HANKINSON, NORTH DAKOTA

**STATEMENT OF NET POSITION – MODIFIED CASH BASIS
December 31, 2019**

	Primary Government			Hankinson Housing Authority	Hankinson Library
	Governmental Activities	Business-type Activities	Total		
ASSETS					
Cash and Cash Equivalents	\$ 1,327,425	\$ 975,157	\$ 2,302,582	\$ 50,477	\$ 27,456
Capital Assets					
Depreciable, net of accumulated depreciation					
Buildings and Improvements	1,710,890	60,800	1,771,690	333,000	-
Equipment	163,712	95,152	258,864	-	-
Infrastructure	5,076,945	1,401,250	6,478,195	-	-
Total Capital Assets	6,951,547	1,557,202	8,508,749	333,000	-
Total Assets	8,278,972	2,532,359	10,811,331	383,477	27,456
LIABILITIES					
Current Debt - due within one year					
Bonds Payable	171,930	101,025	272,955	12,886	-
Noncurrent Debt - due in more than one year					
Bonds Payable	1,361,110	1,989,770	3,350,880	313,896	-
Total Liabilities	1,533,040	2,090,795	3,623,835	326,782	-
NET POSITION (DEFICIT)					
Net Investment in Capital Assets (Deficit)	5,418,507	(533,593)	4,884,914	6,218	-
Restricted	1,088,260	-	1,088,260	50,477	27,456
Unrestricted	239,165	975,157	1,214,322	-	-
Total Net Position (Deficit)	\$ 6,745,932	\$ 441,564	\$ 7,187,496	\$ 56,695	\$ 27,456

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

**STATEMENT OF NET POSITION – MODIFIED CASH BASIS
December 31, 2018**

	Primary Government			Hankinson Housing Authority	Hankinson Library
	Governmental Activities	Business-type Activities	Total		
ASSETS					
Cash and Cash Equivalents	\$ 940,995	\$ 896,364	\$ 1,837,359	\$ 38,611	\$ 23,152
Due from Component Unit	26,162	-	26,162	-	-
Capital Assets					
Non-depreciable					
Construction in Progress	866,894	-	866,894	153,760	-
Depreciable, net of accumulated depreciation					
Buildings and Improvements	1,755,819	62,400	1,818,219	342,000	-
Equipment	191,368	88,656	280,024	-	-
Infrastructure	4,343,091	1,461,375	5,804,466	-	-
Total Capital Assets	<u>7,157,172</u>	<u>1,612,431</u>	<u>8,769,603</u>	<u>495,760</u>	<u>-</u>
Total Assets	8,124,329	2,508,795	10,633,124	534,371	23,152
LIABILITIES					
Due to Primary Government	-	-	-	26,162	-
Current Debt - due within one year					
Bonds Payable	173,622	95,450	269,072	12,359	-
Noncurrent Debt - due in more than one year					
Bonds Payable	1,533,141	2,092,586	3,625,727	326,782	-
Notes Payable	-	-	-	112,500	-
Total Liabilities	<u>1,706,763</u>	<u>2,188,036</u>	<u>3,894,799</u>	<u>477,803</u>	<u>-</u>
NET POSITION (DEFICIT)					
Net Investment in Capital Assets (Deficit)	5,450,409	(575,605)	4,874,804	17,957	-
Restricted	828,404	-	828,404	38,611	23,152
Unrestricted	138,753	896,364	1,035,117	-	-
Total Net Position (Deficit)	<u>\$ 6,417,566</u>	<u>\$ 320,759</u>	<u>\$ 6,738,325</u>	<u>\$ 56,568</u>	<u>\$ 23,152</u>

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended December 31, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Component Units	
				Governmental Activities	Business-type Activities	Total	Hankinson Housing Authority	Hankinson Library
Governmental Activities								
General Government	\$ 394,388	\$ 25,326	\$ -	\$ (369,062)	\$ -	\$ (369,062)	\$ -	\$ -
Public Safety	39,097	-	52,971	13,874	-	13,874	-	-
Public Works/Infrastructure	375,640	16,149	16,024	(343,467)	-	(343,467)	-	-
Economic Development	80,890	-	-	(80,890)	-	(80,890)	-	-
Interest and Other Charges	28,583	-	-	(28,583)	-	(28,583)	-	-
Total Governmental Activities	918,598	41,475	68,995	(808,128)	-	(808,128)	-	-
Business-type Activities								
Water	496,407	887,839	-	-	391,432	391,432	-	-
Sewer	38,714	62,106	-	-	23,392	23,392	-	-
Garbage	80,635	83,953	-	-	3,318	3,318	-	-
Total Business-type Activities	615,756	1,033,898	-	-	418,142	394,750	-	-
Total Primary Government	\$ 1,534,354	\$ 1,075,373	\$ 68,995	(808,128)	418,142	(413,378)	-	-
Component Units								
Hankinson Housing Authority	\$ 30,632	\$ 31,469	\$ 5,006	-	-	-	5,843	-
Hankinson Library	13,636	555	9,817	-	-	-	-	(3,264)
Total Component Units	\$ 44,268	\$ 32,024	\$ 14,823	-	-	-	5,843	(3,264)
General Revenues								
Taxes								
Taxes Levied for General Purposes				314,847	-	314,847	-	-
Taxes Levied for Debt Service				200,765	-	200,765	-	-
Sales Taxes				201,675	-	201,675	-	7,508
State Aid Distribution				75,217	-	75,217	-	-
Interest and Investment Earnings				27,541	-	27,541	67	43
Gain (Loss) on Sale of Assets				5,290	2,640	7,930	(5,783)	-
Transfers				300,000	(300,000)	-	-	-
Miscellaneous				11,159	23	11,182	-	17
Total General Revenues				1,136,494	(297,337)	839,157	(5,716)	7,568
Change in Net Position				328,366	120,805	449,171	127	4,304
Net Position, Beginning of Year				6,417,566	320,759	6,738,325	56,568	23,152
Net Position, End of Year				\$ 6,745,932	\$ 441,564	\$ 7,187,496	\$ 56,695	\$ 27,456

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Component Units	
				Governmental Activities	Business-type Activities	Total	Hankinson Housing Authority	Hankinson Library
Governmental Activities								
General Government	\$ 337,510	\$ 27,018	\$ -	\$ (310,492)	\$ -	\$ (310,492)	\$ -	\$ -
Public Safety	26,478	-	52,164	25,686	-	25,686	-	-
Public Works/Infrastructure	343,063	12,601	11,010	(319,452)	-	(319,452)	-	-
Economic Development	74,083	-	-	(74,083)	-	(74,083)	-	-
Interest and Other Charges	40,323	-	-	(40,323)	-	(40,323)	-	-
Total Governmental Activities	821,457	39,619	63,174	(718,664)	-	(718,664)	-	-
Business-type Activities								
Water	550,151	907,149	-	-	356,998	356,998	-	-
Sewer	31,759	60,578	-	-	28,819	-	-	-
Garbage	76,708	73,440	-	-	(3,268)	(3,268)	-	-
Other	-	-	-	-	-	-	-	-
Total Business-type Activities	658,618	1,041,167	-	-	382,549	353,730	-	-
Total Primary Government	\$ 1,480,075	\$ 1,080,786	\$ 63,174	(718,664)	382,549	(364,934)	-	-
Component Units								
Hankinson Housing Authority	\$ 48,493	\$ 32,550	\$ 5,414	-	-	-	(10,529)	-
Hankinson Library	12,218	1,596	7,715	-	-	-	-	(2,907)
Total Component Units	\$ 60,711	\$ 34,146	\$ 13,129	-	-	-	(10,529)	(2,907)
General Revenues								
Taxes								
Taxes Levied for General Purposes				279,453	-	279,453	-	-
Taxes Levied for Special Purposes				-	-	-	-	-
Taxes Levied for Debt Service				188,822	-	188,822	-	-
Sales Taxes				218,714	-	218,714	-	8,121
State Aid Distribution				66,950	-	66,950	-	-
Federal Aid Distribution				-	-	-	-	-
Interest and Investment Earnings				14,266	-	14,266	42	18
Gain (Loss) on Sale of Assets				-	3,000	3,000	9,338	-
Transfers				272,000	(272,000)	-	-	-
Miscellaneous				14,076	-	14,076	48	134
Total General Revenues				1,054,281	(269,000)	785,281	9,428	8,273
Change in Net Position				335,617	113,549	449,166	(1,101)	5,366
Net Position, Beginning of Year				6,081,949	2,072,101	6,289,159	57,669	17,786
Net Position, End of Year				\$ 6,417,566	\$ 3,207,750	\$ 6,738,325	\$ 56,568	\$ 23,152

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

**BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
December 31, 2019**

	Major Funds							Total Governmental Funds
	General	City Sales Tax	City Sales Tax CC	2007 Ethanol Plant Reserves	2000/2001B Specials	Other Governmental Funds		
ASSETS								
Cash and Cash Equivalents	\$ 39,781	\$ 73,408	\$ -	\$ 845,385	\$ -	\$ 368,851	\$ 1,327,425	
Due from Other Funds	598,973	-	-	-	-	-	598,973	
Total Assets	638,754	73,408	-	845,385	-	368,851	1,926,398	
LIABILITIES								
Due to Other Funds	-	-	-	-	142,335	456,638	598,973	
Total Liabilities	-	-	-	-	142,335	456,638	598,973	
FUND BALANCE (DEFICIT)								
Restricted	-	73,408	-	845,385	-	169,467	1,088,260	
Assigned	-	-	-	-	-	124,115	124,115	
Unassigned (Deficit)	638,754	-	-	-	(142,335)	(381,369)	115,050	
Total Fund Balance (Deficit)	638,754	73,408	-	845,385	(142,335)	(87,787)	1,327,425	
Total Liabilities and Fund Balance (Deficit)	\$ 638,754	\$ 73,408	\$ -	\$ 845,385	\$ -	\$ 368,851	\$ 1,926,398	

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

**BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
December 31, 2018**

	Major Funds						Total Governmental Funds
	General	City Sales Tax	City Sales Tax CC	2007 Ethanol Plant Reserves	2000/2001B Specials	Other Governmental Funds	
ASSETS							
Cash and Cash Equivalents	\$ 10,200	\$ 64,895	\$ -	\$ 545,385	\$ -	\$ 320,515	\$ 940,995
Due from Other Funds	628,783	-	-	-	-	-	628,783
Due from Component Unit	26,162	-	-	-	-	-	26,162
Total Assets	665,145	64,895	-	545,385	-	320,515	1,595,940
LIABILITIES							
Due to Other Funds	-	-	-	-	148,674	480,109	628,783
Total Liabilities	-	-	-	-	148,674	480,109	628,783
FUND BALANCE (DEFICIT)							
Restricted	-	64,895	-	545,385	-	218,124	828,404
Assigned	-	-	-	-	-	22,332	22,332
Unassigned (Deficit)	665,145	-	-	-	(148,674)	(400,050)	116,421
Total Fund Balance (Deficit)	665,145	64,895	-	545,385	(148,674)	(159,594)	967,157
Total Liabilities and Fund Balance (Deficit)	\$ 665,145	\$ 64,895	\$ -	\$ 545,385	\$ -	\$ 320,515	\$ 1,595,940

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET POSITION – MODIFIED CASH BASIS
December 31, 2019 and 2018**

Total Fund Balance - Governmental Funds December 31, 2019		\$ 1,327,425
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	9,886,757	
Less Accumulated Depreciation	(2,935,210)	
Net Capital Assets	<u>6,951,547</u>	6,951,547
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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.		
Bonds Payable		<u>(1,533,040)</u>
Net Position of Governmental Activities December 31, 2019		<u>\$ 6,745,932</u>
Total Fund Balance - Governmental Funds December 31, 2018		\$ 967,157
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	9,850,288	
Less Accumulated Depreciation	(2,693,116)	
Net Capital Assets	<u>7,157,172</u>	7,157,172
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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.		
Bonds Payable		<u>(1,706,763)</u>
Net Position of Governmental Activities December 31, 2018		<u>\$ 6,417,566</u>

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
 Year Ended December 31, 2019

	Major Funds						Other Governmental Funds	Total Governmental Funds
	General	City Sales Tax	City Sales Tax CC	2007 Ethanol Plant Reserves	2000/2001B Specials			
REVENUES								
Taxes	\$ 311,310	\$ 100,110	\$ 100,111	\$ -	\$ -	\$ 5,397	\$ 516,928	
Special Assessments	-	-	-	-	104,364	95,995	200,359	
Licenses, Permits, and Fees	15,145	-	-	-	-	26,330	41,475	
Intergovernmental	75,217	-	-	-	-	68,995	144,212	
Fines and Forfeitures	810	-	-	-	-	-	810	
Interest Income	27,541	-	-	-	-	-	27,541	
Miscellaneous Income	15,610	-	-	-	-	29	15,639	
Total Revenues	445,633	100,110	100,111	-	104,364	196,746	946,964	
EXPENDITURES								
Current								
General Government	250,039	-	-	-	-	99,420	349,459	
Public Safety	39,097	-	-	-	-	-	39,097	
Public Works/Infrastructure	133,404	15,000	-	-	-	16,671	165,075	
Economic Development	3,600	76,597	-	-	-	693	80,890	
Debt Service								
Principal	-	-	-	-	90,000	83,723	173,723	
Interest and Other Charges	-	-	-	-	8,025	20,558	28,583	
Facilities Acquisition and Construction	-	-	-	-	-	49,869	49,869	
Total Expenditures	426,140	91,597	-	-	98,025	270,934	886,696	
Excess (Deficiency) of Revenues Over Expenditures	19,493	8,513	100,111	-	6,339	(74,188)	60,268	
OTHER FINANCING SOURCES (USES)								
Operating Transfer In	154,066	-	-	300,000	-	306,560	760,626	
Operating Transfer Out	(199,950)	-	(100,111)	-	-	(160,565)	(460,626)	
Total Other Financing Sources (Uses)	(45,884)	-	(100,111)	300,000	-	145,995	300,000	
NET CHANGE IN FUND BALANCE	(26,391)	8,513	-	300,000	6,339	71,807	360,268	
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	665,145	64,895	-	545,385	(148,674)	(159,594)	967,157	
FUND BALANCE (DEFICIT), END OF YEAR	\$ 638,754	\$ 73,408	\$ -	\$ 845,385	\$ (142,335)	\$ (87,787)	\$ 1,327,425	

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
 Year Ended December 31, 2018

	Major Funds						Other Governmental Funds	Total Governmental Funds
	General	City Sales Tax	City Sales Tax CC	2007 Ethanol Plant Reserves	2000/2001B Specials			
REVENUES								
Taxes	\$ 274,229	\$ 108,282	\$ 108,282	\$ -	\$ -	\$ 10,025	\$ 500,818	
Special Assessments	-	-	-	-	104,791	81,380	186,171	
Licenses, Permits, and Fees	11,975	-	-	-	-	27,644	39,619	
Intergovernmental	66,950	-	-	-	-	63,174	130,124	
Fines and Forfeitures	890	-	-	-	-	-	890	
Interest Income	14,266	-	-	-	-	-	14,266	
Miscellaneous Income	8,360	-	-	-	-	4,826	13,186	
Total Revenues	376,670	108,282	108,282	-	104,791	187,049	885,074	
EXPENDITURES								
Current								
General Government	163,678	130	-	-	-	128,773	292,581	
Public Safety	44,087	-	-	-	-	1,532	45,619	
Public Works/Infrastructure	137,567	-	-	-	-	10,200	147,767	
Economic Development	1,200	70,383	-	-	-	2,500	74,083	
Debt Service								
Principal	-	-	-	-	90,000	473,500	563,500	
Interest and Other Charges	-	7,333	-	-	10,725	22,265	40,323	
Facilities Acquisition and Construction	-	-	-	-	-	17,794	17,794	
Total Expenditures	346,532	77,846	-	-	100,725	656,564	1,181,667	
Excess (Deficiency) of Revenues Over Expenditures	30,138	30,436	108,282	-	4,066	(469,515)	(296,593)	
OTHER FINANCING SOURCES (USES)								
Proceeds from Long-Term Debt	-	-	-	-	-	67,663	67,663	
Operating Transfer In	117,318	-	-	200,000	-	281,739	599,057	
Operating Transfer Out	(103,382)	(15,000)	(108,282)	-	-	(100,393)	(327,057)	
Total Other Financing Sources (Uses)	13,936	(15,000)	(108,282)	200,000	-	249,009	339,663	
NET CHANGE IN FUND BALANCE	44,074	15,436	-	200,000	4,066	(220,506)	43,070	
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	621,071	49,459	-	345,385	(152,740)	60,912	924,087	
FUND BALANCE (DEFICIT), END OF YEAR	\$ 665,145	\$ 64,895	\$ -	\$ 545,385	\$ (148,674)	\$ (159,594)	\$ 967,157	

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENTS OF ACTIVITIES – MODIFIED CASH BASIS
Years Ended December 31, 2019 and 2018**

Net Change in Fund Balance - Total Governmental Funds December 31, 2019	\$ 360,268
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 costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.	(205,625)
Repayment of debt principal and other long-term liabilities are an expenditure in the governmental fund financial statements, but repayment reduces long-term liabilities in the statement of net position.	173,723
Change in Net Position of Governmental Activities December 31, 2019	<u>\$ 328,366</u>
Net Change in Fund Balance - Total Governmental Funds December 31, 2018	\$ 43,070
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 costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.	(203,290)
Governmental funds report debt proceeds as current financial resources. The statement of activities treats such issuance of bonds payable as a liability	(67,663)
Repayment of debt principal and other long-term liabilities are an expenditure in the governmental fund financial statements, but repayment reduces long-term liabilities in the statement of net position.	563,500
Change in Net Position of Governmental Activities December 31, 2018	<u>\$ 335,617</u>

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2019

	Business-type Activities - Proprietary Funds			Total
	Water	Sewer	Garbage	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 823,803	\$ 150,603	\$ 751	\$ 975,157
Total Current Assets	823,803	150,603	751	975,157
Capital Assets				
Depreciable, net of accumulated depreciation				
Buildings and Improvements	60,800	-	-	60,800
Equipment	95,152	-	-	95,152
Infrastructure	1,401,250	-	-	1,401,250
Total Capital Assets	1,557,202	-	-	1,557,202
Total Assets	2,381,005	150,603	751	2,532,359
LIABILITIES				
Current Liabilities				
Bonds Payable	100,450	-	-	100,450
Total Current Liabilities	100,450	-	-	100,450
Long-term Liabilities				
Bonds Payable	1,990,345	-	-	1,990,345
Total Long-term Liabilities	1,990,345	-	-	1,990,345
Total Liabilities	2,090,795	-	-	2,090,795
NET POSITION (DEFICIT)				
Net Investment in Capital Assets (Deficit)	(533,593)	-	-	(533,593)
Unrestricted	823,803	150,603	751	975,157
Total Net Position (Deficit)	\$ 290,210	\$ 150,603	\$ 751	\$ 441,564

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2018

	Business-type Activities - Proprietary Funds			Total
	Water	Sewer	Garbage	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 771,743	\$ 127,211	\$ (2,590)	\$ 896,364
Total Current Assets	771,743	127,211	(2,590)	896,364
Capital Assets				
Depreciable, net of accumulated depreciation				
Buildings and Improvements	62,400	-	-	62,400
Equipment	88,656	-	-	88,656
Infrastructure	1,461,375	-	-	1,461,375
Total Capital Assets	1,612,431	-	-	1,612,431
Total Assets	2,384,174	127,211	(2,590)	2,508,795
LIABILITIES				
Current Liabilities				
Bonds Payable	95,450	-	-	95,450
Total Current Liabilities	95,450	-	-	95,450
Long-term Liabilities				
Bonds Payable	2,092,586	-	-	2,092,586
Total Long-term Liabilities	2,092,586	-	-	2,092,586
Total Liabilities	2,188,036	-	-	2,188,036
NET POSITION (DEFICIT)				
Net Investment in Capital Assets (Deficit)	(575,605)	-	-	(575,605)
Unrestricted (Deficit)	771,743	127,211	(2,590)	896,364
Total Net Position (Deficit)	\$ 196,138	\$ 127,211	\$ (2,590)	\$ 320,759

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2019

	Business-type Activities - Proprietary Funds			
	Water	Sewer	Garbage	Total
OPERATING REVENUES				
Charges for Services	\$ 887,839	\$ 62,106	\$ 83,953	\$ 1,033,898
Other Income	-	-	23	23
Total Operating Revenues	887,839	62,106	83,976	1,033,921
OPERATING EXPENSES				
Salaries	85,416	13,230	-	98,646
Employee Benefits	21,287	3,585	-	24,872
Professional Fees	23,493	-	-	23,493
Insurance	80	25	-	105
Contract Services	78,124	-	80,635	158,759
Utilities	78,201	4,310	-	82,511
Supplies	7,341	5,338	-	12,679
Repairs and Maintenance	26,834	4,919	-	31,753
Depreciation	76,443	-	-	76,443
Miscellaneous	30,503	7,307	-	37,810
Total Operating Expenses	427,722	38,714	80,635	547,071
OPERATING INCOME	460,117	23,392	3,341	486,850
NONOPERATING REVENUES (EXPENSES)				
Interest and Fiscal Fees	(68,685)	-	-	(68,685)
Operating Grants and Contributions	-	-	-	-
Loss on Sale of Capital Assets	-	-	-	-
Gain on Sale of Capital Assets	2,640	-	-	2,640
Special Assessments	-	-	-	-
Interest Income	-	-	-	-
Transfers In	21,646	27,949	-	49,595
Transfers Out	(321,646)	(27,949)	-	(349,595)
Total Nonoperating Revenues (Expenses)	(366,045)	-	-	(366,045)
CHANGE IN NET POSITION	94,072	23,392	3,341	120,805
NET POSITION (DEFICIT), BEGINNING OF YEAR	196,138	127,211	(2,590)	320,759
NET POSITION, END OF YEAR	\$ 290,210	\$ 150,603	\$ 751	\$ 441,564

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2018**

	Business-type Activities - Proprietary Funds			
	Water	Sewer	Garbage	Total
OPERATING REVENUES				
Charges for Services	\$ 907,149	\$ 60,578	\$ 73,440	\$ 1,041,167
Total Operating Revenues	907,149	60,578	73,440	1,041,167
OPERATING EXPENSES				
Salaries	80,935	13,020	2,416	96,371
Employee Benefits	14,370	3,083	331	17,784
Professional Fees	44,216	-	-	44,216
Contract Services	82,408	-	73,961	156,369
Utilities	67,666	3,191	-	70,857
Supplies	15,739	2,521	-	18,260
Repairs and Maintenance	75,540	7,552	-	83,092
Depreciation	77,091	-	-	77,091
Miscellaneous	20,516	2,392	-	22,908
Total Operating Expenses	478,481	31,759	76,708	586,948
OPERATING INCOME (LOSS)	428,668	28,819	(3,268)	454,219
NONOPERATING REVENUES (EXPENSES)				
Interest and Fiscal Fees	(71,670)	-	-	(71,670)
Gain on Sale of Capital Assets	3,000	-	-	3,000
Transfers In	44,144	28,819	-	72,963
Transfers Out	(316,144)	(28,819)	-	(344,963)
Total Nonoperating Revenues (Expenses)	(340,670)	-	-	(340,670)
CHANGE IN NET POSITION	87,998	28,819	(3,268)	113,549
NET POSITION, BEGINNING OF YEAR	108,140	98,392	678	207,210
NET POSITION (DEFICIT), END OF YEAR	\$ 196,138	\$ 127,211	\$ (2,590)	\$ 320,759

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – MODIFIED CASH BASIS
Year Ended December 31, 2019

	Business-type Activities - Proprietary Funds			
	Water	Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 887,839	\$ 62,106	\$ 83,976	\$ 1,033,921
Payments to Suppliers	(265,863)	(25,484)	(80,635)	(371,982)
Payments to Employees	(85,416)	(13,230)	-	(98,646)
Net Cash Provided by (Used By) Operating Activities	536,560	23,392	3,341	563,293
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from Other Funds	21,646	27,949	-	49,595
Transfers to Other Funds	(321,646)	(27,949)	-	(349,595)
Net Cash Provided by (Used By) Noncapital Financing Activities	(300,000)	-	-	(300,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest and Fiscal Fees	(68,685)	-	-	(68,685)
Principal Paid on Capital Debt	(97,241)	-	-	(97,241)
Acquisition of Capital Assets	(18,574)	-	-	(18,574)
Net Cash Provided by (Used By) Capital and Related Financing Activities	(184,500)	-	-	(184,500)
NET CHANGE IN CASH AND CASH EQUIVALENTS	52,060	23,392	3,341	78,793
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	771,743	127,211	(2,590)	896,364
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 823,803	\$ 150,603	\$ 751	\$ 975,157
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income	\$ 460,117	\$ 23,392	\$ 3,341	\$ 486,850
Depreciation Expense	76,443	-	-	76,443
Net Cash Provided by (Used By) Operating Activities	\$ 536,560	\$ 23,392	\$ 3,341	\$ 563,293

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – MODIFIED CASH BASIS
Year Ended December 31, 2018

	Business-type Activities - Proprietary Funds			
	Water	Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 907,149	\$ 60,578	\$ 73,440	\$ 1,041,167
Payments to Suppliers	(320,455)	(18,739)	(74,292)	(413,486)
Payments to Employees	(80,935)	(13,020)	(2,416)	(96,371)
Net Cash Provided by (Used By) Operating Activities	505,759	28,819	(3,268)	531,310
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from Other Funds	44,144	28,819	-	72,963
Transfers to Other Funds	(316,144)	(28,819)	-	(344,963)
Net Cash Provided by (Used By) Noncapital Financing Activities	(272,000)	-	-	(272,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest and Fiscal Fees	(71,670)	-	-	(71,670)
Principal Paid on Capital Debt	(91,335)	-	-	(91,335)
Acquisition of Capital Assets	(15,000)	-	-	(15,000)
Net Cash Provided by (Used By) Capital and Related Financing Activities	(178,005)	-	-	(178,005)
NET CHANGE IN CASH AND CASH EQUIVALENTS	55,754	28,819	(3,268)	81,305
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	715,989	98,392	678	815,059
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 771,743	\$ 127,211	\$ (2,590)	\$ 896,364
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income	\$ 428,668	\$ 28,819	\$ (3,268)	\$ 454,219
Depreciation Expense	77,091	-	-	77,091
Net Cash Provided by (Used By) Operating Activities	\$ 505,759	\$ 28,819	\$ (3,268)	\$ 531,310

See Notes to Financial Statements

CITY OF HANKINSON, NORTH DAKOTA

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hankinson (the City) was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Hankinson is to maintain the accounting records on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the City of Hankinson. 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. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Hankinson 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 of Hankinson.

Based on these criteria, certain organizations have been included in the report as follows:

- Hankinson Housing Authority – The Hankinson Housing Authority's governing board is separate from the governing board of the City. The City's governing board approves the housing board appointments and has the authority to disapprove, amend, or approve the authority's budget.
- Hankinson Library – The Hankinson Library's governing board is separate from the governing board of the City. The City's governing board approves the housing board appointments and has the authority to disapprove, amend, or approve the library's budget.

Government-Wide and Fund Financial Statements

Government-wide statements – The statement of net position and the statement of activities display information about the primary government, the City of Hankinson. These statements include the financial activities of the overall government. 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, fines 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.

Separate financial statements are prepared for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund and proprietary fund financial statements are reported using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund balance, revenues, expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

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.

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 is used for the collection of sales tax.
- City Sales Tax CC – This fund is used for the collection of sales tax that is used for community center operations.
- 2007 Ethanol Plant Reserves – This fund accounts for maintains and upgrades to well fields.
- 2000/2001B Specials – This fund accounts for the accumulation of resources for bonded debt principal and interest payments.

The City reports the following major proprietary funds:

- Water Fund – The City accounts for cash receipts and disbursements related to the furnishing of water services to residents of the City in this fund.
- Sewer Fund – The City accounts for cash receipts and disbursements related to the furnishing of sewer services to residents of the City in this fund.
- Garbage Fund – The City accounts for cash receipts and disbursements related to the furnishing of garbage services to residents of the City in this fund.

Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consists of highly liquid investments with an original maturity of three months or less.

Capital Assets

Capital assets include land, buildings, infrastructure and equipment. Assets are reported in the governmental activities column in the government-wide financial 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:

<u>Assets</u>	<u>Years</u>
Buildings and Infrastructure	20 – 50
Machinery and Equipment	10 – 20

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

Compensated Absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. Upon termination of employment or retirement, employees will be paid for unused vacation benefits that have accumulated through the last day of work. Any unused sick benefits will not be paid upon termination of employment or retirement.

Long-term Obligations

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as costs in the current period.

Fund Balance

In the fund financial statements, governmental funds report fund balance in the classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- Nonspendable
 - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. They include items such as, but not limited to, inventories, prepaid items, or the permanent principal of endowment funds.
- Restricted
 - Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed
 - A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.
- Assigned
 - Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes but are under the direction of the board and the city auditor.
- Unassigned
 - Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

It is the policy of the City to spend restricted resources first, followed by unrestricted resources. It is also the policy of the City to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Net Position

Net position represents the difference between assets and liabilities in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities related to those assets. Unrestricted Net Position is the net amount of assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the City maintains deposits at the depository banks designed 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, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At December 31, 2019 and 2018, the City's carrying amount of deposits was \$2,302,582 and \$1,837,359 and the bank balances were \$2,207,398 and \$1,729,524. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balance was collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk

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

- 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.
- 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.
- Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- Obligations of the state.

As of December 31, 2019 and 2018, the City held \$587,731 and \$573,968 certificates of deposit.

Interest Rate Risk

The City does not have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

Concentration of Credit Risk

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

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

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.

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1 of the year following the assessment date. A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15. Penalty and interest are added on March 1 if the first half of the taxes is not paid. Additional penalty and interest are added on October 15th if not paid.

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 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2019 and 2018:

	Balance January 1, 2019	Additions	Retirements	Balance December 31, 2019
Governmental Activities				
Capital Assets, not being depreciated				
Construction in Progress	\$ 866,894	\$ -	\$ (866,894)	\$ -
Total Capital Assets, not being depreciated	866,894	-	(866,894)	-
Capital Assets, being depreciated				
Buildings and Improvements	2,103,162	-	-	2,103,162
Equipment	480,610	8,500	(21,900)	467,210
Infrastructure	6,399,622	916,763	-	7,316,385
Total Capital Assets, being depreciated	8,983,394	925,263	(21,900)	9,886,757
Less Accumulated Depreciation for				
Buildings and Improvements	347,343	44,929	-	392,272
Equipment	289,242	36,156	(21,900)	303,498
Infrastructure	2,056,531	182,909	-	2,239,440
Total Accumulated Depreciation	2,693,116	263,994	(21,900)	2,935,210
Total Capital Assets Being Depreciated, net	6,290,278	661,269	-	6,951,547
Governmental Activities Capital Assets, net	<u>\$ 7,157,172</u>	<u>\$ 661,269</u>	<u>\$ (866,894)</u>	<u>\$ 6,951,547</u>

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

	Balance January 1, 2019	Additions	Retirements	Balance December 31, 2019
Business-type Activities				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 118,440	\$ -	\$ -	\$ 118,440
Equipment	202,621	25,074	(9,650)	218,045
Infrastructure	2,405,000	-	-	2,405,000
Total Capital Assets, being depreciated	2,726,061	25,074	(9,650)	2,741,485
Less Accumulated Depreciation for				
Buildings and Improvements	56,040	1,600	-	57,640
Equipment	113,965	14,718	(5,790)	122,893
Infrastructure	943,625	60,125	-	1,003,750
Total Accumulated Depreciation	1,113,630	76,443	(5,790)	1,184,283
Total Capital Assets Being Depreciated, net	1,612,431	(51,369)	(3,860)	1,557,202
Business-type Activities Capital Assets, net	<u>\$ 1,612,431</u>	<u>\$ (51,369)</u>	<u>\$ (3,860)</u>	<u>\$ 1,557,202</u>
	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018
Governmental Activities				
Capital Assets, not being depreciated				
Construction in Progress	\$ 849,100	\$ 17,794	\$ -	\$ 866,894
Total Capital Assets, not being depreciated	849,100	17,794	-	866,894
Capital Assets, being depreciated				
Buildings and Improvements	2,103,162	-	-	2,103,162
Equipment	461,469	19,141	-	480,610
Infrastructure	6,399,622	-	-	6,399,622
Total Capital Assets, being depreciated	8,964,253	19,141	-	8,983,394
Less Accumulated Depreciation for				
Buildings and Improvements	302,414	44,929	-	347,343
Equipment	253,936	35,306	-	289,242
Infrastructure	1,896,541	159,990	-	2,056,531
Total Accumulated Depreciation	2,452,891	240,225	-	2,693,116
Total Capital Assets Being Depreciated, net	6,511,362	(221,084)	-	6,290,278
Governmental Activities Capital Assets, net	<u>\$ 7,360,462</u>	<u>\$ (203,290)</u>	<u>\$ -</u>	<u>\$ 7,157,172</u>

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018
Business-type Activities				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 118,440	\$ -	\$ -	\$ 118,440
Equipment	192,621	20,000	(10,000)	202,621
Infrastructure	2,405,000	-	-	2,405,000
Total Capital Assets, being depreciated	2,716,061	20,000	(10,000)	2,726,061
Less Accumulated Depreciation for				
Buildings and Improvements	54,440	1,600	-	56,040
Equipment	106,599	15,366	(8,000)	113,965
Infrastructure	883,500	60,125	-	943,625
Total Accumulated Depreciation	1,044,539	77,091	(8,000)	1,113,630
Total Capital Assets Being Depreciated, net	1,671,522	(57,091)	(2,000)	1,612,431
Business-type Activities Capital Assets, net	<u>\$ 1,671,522</u>	<u>\$ (57,091)</u>	<u>\$ (2,000)</u>	<u>\$ 1,612,431</u>

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

	2019	2018
Governmental Activities		
General Government	\$ 44,929	\$ 44,929
Public Works/Infrastructure	219,065	195,296
Total Depreciation Expense - Governmental Activities	<u>\$ 263,994</u>	<u>\$ 240,225</u>
Business-type Activities		
Water	\$ 76,443	\$ 77,091
Total Depreciation Expense - Business-type Activities	<u>\$ 76,443</u>	<u>\$ 77,091</u>

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

The following fund transfers were made during the year ended December 31, 2019:

2019		
	Operating Transfer In	Operating Transfer Out
General Fund	\$ 154,066	\$ 199,950
City Sales Tax CC	-	100,111
2007 Ethanol Plant Reserves	300,000	-
Nonmajor Governmental Funds	306,560	160,565
Proprietary Funds	49,595	349,595
Total	<u>\$ 810,221</u>	<u>\$ 810,221</u>

2018		
	Operating Transfer In	Operating Transfer Out
General Fund	\$ 117,318	\$ 103,382
City Sales Tax	-	15,000
City Sales Tax CC	-	108,282
2007 Ethanol Plant Reserves	200,000	-
Nonmajor Governmental Funds	281,739	100,393
Proprietary Funds	72,963	344,963
Total	<u>\$ 672,020</u>	<u>\$ 672,020</u>

Transfers are made for funding various projects and operational expenses. Amounts reported as due to and due from other funds will be repaid as funds become available.

NOTE 6 – LONG-TERM LIABILITIES

During the years ended December 31, 2019 and 2018, the following changes occurred in long-term liabilities of the City:

	Long-term Liabilities at January 1, 2019	Increases	Decreases	Long-term Liabilities at December 31, 2019	Due Within One Year
Governmental Activities					
Bonds Payable	\$ 1,706,763	\$ -	\$ (173,723)	\$ 1,533,040	\$ 171,930
Total - Governmental-type Activities	<u>\$ 1,706,763</u>	<u>\$ -</u>	<u>\$ (173,723)</u>	<u>\$ 1,533,040</u>	<u>\$ 171,930</u>
Business-type Activities					
Bonds Payable	\$ 2,188,036	\$ -	\$ (97,241)	\$ 2,090,795	\$ 101,025
Total - Business-type Activities	<u>\$ 2,188,036</u>	<u>\$ -</u>	<u>\$ (97,241)</u>	<u>\$ 2,090,795</u>	<u>\$ 101,025</u>

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

	Long-term Liabilities at January 1, 2018	Increases	Decreases	Long-term Liabilities at December 31, 2018	Due Within One Year
Governmental Activities					
Bonds Payable	\$ 2,202,600	\$ -	\$ (495,837)	\$ 1,706,763	\$ 173,622
Total - Governmental-type Activities	\$ 2,202,600	\$ -	\$ (495,837)	\$ 1,706,763	\$ 173,622
Business-type Activities					
Bonds Payable	\$ 2,279,371	\$ -	\$ (91,335)	\$ 2,188,036	\$ 95,450
Total - Business-type Activities	\$ 2,279,371	\$ -	\$ (91,335)	\$ 2,188,036	\$ 95,450

Long-term debt of the governmental activities at December 31, 2019 consists of the following issues:

	Interest Rates	Final Year of Maturity	Authorized and Issued	Outstanding
Governmental Activities				
2010 Improvement Bond	0.50%	2030	510,000	\$ 330,000
2008 Improvement Bond	2.50%	2028	100,000	51,000
2008 Improvement Bond	2.50%	2028	95,000	48,000
2017 Infrastructure Bond	2.00%	2041	1,300,000	886,640
2001 Municipal Bond	2.50%	2021	1,457,760	185,000
2003 Municipal Bond	2.50%	2023	133,790	32,400
Total				\$ 1,533,040
Business				
2002 Water Revenue Bonds	3.00%	2042	600,000	\$ 437,892
2001 Water Revenue Bonds	2.50%	2021	345,000	50,000
2012 Water Revenue Bonds	2.00-3.75%	2038	1,930,000	1,550,000
2006 Water Revenue Bonds	3.00%	2038	130,000	52,903
Total				\$ 2,090,795

NOTE 7 – RISK MANAGEMENT

The City of Hankinson 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 of Hankinson pays an annual premium to NDIRF for its general liability, auto, and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability coverage.

The City also participates in the State Bonding Fund. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$1,250,000 for the City employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City has worker's compensation with the North Dakota Workforce Safety and Insurance.

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

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

NOTE 8 – LEGAL COMPLIANCE - BUDGETS

The City’s general fund expenditures exceeded budgeted amounts for the year ended December 31, 2019. Expenditures in excess of budgeted amounts incurred in general government and economic development expenditures.

NOTE 9 – CORRECTION OF MISSTATEMENT

It was determined that there were financial misstatements for the year ended December 31, 2017. The City made the following corrections:

	Primary Government		Component Units
	Governmental Activities	Business-type Activities	
Net Position, previously reported	\$ 5,388,751	\$ 1,274,456	\$ 26,329
Cash	(73,378)	65,226	(13,589)
Due from Component Unit	53,124	-	-
Fixed Assets	758,953	(1,180,560)	328,611
Bonds Payable	(45,501)	48,088	12,228
Notes Payable	-	-	(225,000)
Due to Primary Governmet	-	-	(53,124)
Net Position, restated	<u>\$ 6,081,949</u>	<u>\$ 207,210</u>	<u>\$ 75,455</u>

NOTE 10 – PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

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

At December 31, 2019 and 2018, if the City were to report on the full accrual basis, a liability of \$238,821 and \$348,272 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30 2019 and 2018, the City's proportion was .020376 and .020637 percent. The City's pension contributions for the years ended December 31, 2019 and 2018 was \$15,090 and \$15,845.

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary Increases	Service at Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%

*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return 7.50%, net of investment expenses

Cost-of-living adjustments None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. . Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019 and 2018, if the City were to report on the full accrual basis, a liability of \$15,256 and \$15,259 for its proportionate share of the net OPEB liability would have been reported. The net OPEB liability was measured as of June 30 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30 2019 and 2018, the City's proportion was .018994 and .019375 percent. The City's OPEB contributions for the years ended December 31, 2019 and 2018 was \$2,416 and \$2,537.

Actuarial Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.25%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
Domestic Fixed Income	40%	2.07%
International Equities	21%	6.95%

CITY OF HANKINSON, NORTH DAKOTA
Notes to Financial Statements – Continued

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 12 – FUND BALANCE

The following is a summary of fund balances as of December 31, 2019 and 2018:

	2019	2018
Fund Balance		
Restricted for		
Sales Tax	\$ 155,356	\$ 66,235
Debt Service	906,584	693,530
Capital Projects	-	49,869
General Government	26,320	18,770
Assigned for		
Public Works	100,000	-
Other	24,115	22,332
Unassigned	115,050	116,421
Total Fund Balance	\$ 1,327,425	\$ 967,157

NOTE 13 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 5, 2023, the date on which the financial statements were available to be issued.

CITY OF HANKINSON, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
Year Ended December 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes	\$ 317,215	\$ 317,215	\$ 311,310	\$ (5,905)
Licenses, Permits, and Fees	13,500	13,500	15,145	1,645
Intergovernmental	61,000	61,000	75,217	14,217
Fines and Forfeitures	500	500	810	310
Interest Income	12,000	12,000	27,541	15,541
Miscellaneous Income	6,000	6,000	15,610	9,610
Total Revenues	<u>410,215</u>	<u>410,215</u>	<u>445,633</u>	<u>35,418</u>
EXPENDITURES				
Current				
General Government	172,350	172,350	250,039	(77,689)
Public Safety	37,000	37,000	39,097	(2,097)
Public Works/Infrastructure	167,000	167,000	133,404	33,596
Economic Development	-	-	3,600	(3,600)
Total Expenditures	<u>376,350</u>	<u>376,350</u>	<u>426,140</u>	<u>(49,790)</u>
Excess (Deficiency) of Revenues over Expenditures	33,865	33,865	19,493	(14,372)
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	-	-	154,066	154,066
Operating Transfer Out	(32,000)	(32,000)	(199,950)	(167,950)
Total Other Financing Sources (Uses)	<u>(32,000)</u>	<u>(32,000)</u>	<u>(45,884)</u>	<u>(13,884)</u>
NET CHANGE IN FUND BALANCE	1,865	1,865	(26,391)	(28,256)
FUND BALANCE, BEGINNING OF YEAR			<u>665,145</u>	
FUND BALANCE, END OF YEAR			<u><u>\$ 638,754</u></u>	

CITY OF HANKINSON, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes	\$ 229,950	\$ 229,950	\$ 274,229	\$ 44,279
Licenses, Permits, and Fees	9,500	9,500	11,975	2,475
Intergovernmental	69,000	69,000	66,950	(2,050)
Fines and Forfeitures	500	500	890	390
Interest Income	9,000	9,000	14,266	5,266
Miscellaneous Income	5,500	5,500	8,360	2,860
Total Revenues	323,450	323,450	376,670	53,220
EXPENDITURES				
Current				
General Government	161,305	161,305	163,678	(2,373)
Public Safety	35,000	35,000	44,087	(9,087)
Public Works/Infrastructure	176,500	176,500	137,567	38,933
Economic Development	-	-	1,200	(1,200)
Total Expenditures	372,805	372,805	346,532	26,273
Excess (Deficiency) of Revenues over Expenditures	(49,355)	(49,355)	30,138	79,493
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	-	-	117,318	117,318
Operating Transfer Out	(32,000)	(32,000)	(103,382)	(71,382)
Total Other Financing Sources (Uses)	(32,000)	(32,000)	13,936	45,936
NET CHANGE IN FUND BALANCE	(81,355)	(81,355)	44,074	125,429
FUND BALANCE, BEGINNING OF YEAR			621,071	
FUND BALANCE, END OF YEAR			\$ 665,145	



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*

City Council
City of Hankinson
Hankinson, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Hankinson, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City of Hankinson's basic financial statements, and have issued our report thereon dated March 5, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hankinson's internal control over financial reporting (internal control) to determine the auditing 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 City of Hankinson's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of current year findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of current year findings as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of current year findings as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hankinson's financial statements are free from 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 these 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 current year findings. The City's responses were 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 report 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.



Nadine Julson, LLC
Wahpeton, North Dakota
March 5, 2023

CITY OF HANKINSON, NORTH DAKOTA

SCHEDULE OF CURRENT YEAR FINDINGS
Years ended December 31, 2019 and 2018

2019-001 FINANCIAL STATEMENT PREPARATION

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on the modified cash basis.

Condition

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Effect or Potential Effect

Inadequate controls over financial reporting of the City results in more than a remote likelihood that the City would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation

We recommend the City be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. As a compensating control, the City should establish an internal control policy to document annual review of the financial statements and to review a financial statement disclosure checklist.

Views of Responsible Officials

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

2019-002 LACK OF SEGREGATION OF DUTIES

Criteria

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the City.

Effect or Potential Effect

Without sufficient segregation of duties, the risk significant increases that errors and fraud related to cash receipts, disbursements, and reconciliations, including misappropriation of assets, could occur and not be detected within a timely basis.

CITY OF HANKINSON, NORTH DAKOTA
Schedule of Current Year Findings – Continued

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding and we understand that this will be a repeated recommendation due to the limited amount of resources of the City. The City will segregate functions where feasible.

CITY OF HANKINSON, NORTH DAKOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Years ended December 31, 2019 and 2018

Prior Financial Statement Findings

2017-1

A material weakness was reported for inadequate segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This material weakness continues to exist under the current audit findings as finding number 2019-002.