

CITY OF HATTON
HATTON, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

City of Hatton
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CITY OF HATTON
LIST OF OFFICIALS
DECEMBER 31, 2020

CITY COUNCIL

Office

Stu Lecher
Kim Ostlie
Ben Naastad
Mark Duncan
Bernie Johnson
Scott Phipps
Curtis Huus

Mayor

EMPLOYEES:

Dan Cute

City Auditor

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

Governing Board
City of Hatton
Hatton, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Hatton as of and for the year ended December 31, 2020, 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, Business-type activities, each major fund, and the aggregate remaining fund information of City of Hatton as of December 31, 2020, and the changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended, in accordance with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to that matter.

Other information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hatton's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is not a required part of the basic financial statements. In my opinion, the Schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basis financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

Fargo, North Dakota
September 1, 2023

CITY OF HATTON
STATEMENT OF NET POSITION-MODIFIED CASH BASIS
DECEMBER 31, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	56,517.27	332,810.80	389,328.07
Capital assets (net of accumulated depreciation)	-	-	-
Total Assets	56,517.27	332,810.80	389,328.07
LIABILITIES			
Long-term liabilities:			-
Total liabilities	-	-	-
NET POSITION			
Restricted for:	-	-	-
Capital Projects	32,542.20		32,542.20
Economic Development	111,091.80	-	111,091.80
Unrestricted	(87,116.73)	332,810.80	245,694.07
Total net position	56,517.27	332,810.80	389,328.07

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

CITY OF HATTON
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020

		Program Revenues			Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating grants and Contributions	Capital grants and Contributions	Governmental Activities
Governmental activities:					
General government	187,480.85	2,771.00			(184,709.85)
Public safety	57,832.08				(57,832.08)
Highways and streets	66,643.57		42,353.78		(24,289.79)
Economic development	179,040.55				(179,040.55)
Capital outlays	1,098,218.82				(1,098,218.82)
Debt expense				11,291.25	11,291.25
Total Governmental Activities	1,589,215.87	2,771.00	42,353.78	11,291.25	(1,532,799.84)
Business-type activities					
Water	124,932.38	155,871.44			30,939.06
Sewer	31,864.58	127,500.57			95,635.99
Garbage	146,174.73	141,448.20			(4,726.53)
Meter	-				-
Debt expense	989,777.90				(989,777.90)
Capital outlays	1,021,187.73			228,430.25	(792,757.48)
Total Business-type activities	2,313,937.32	424,820.21	-	228,430.25	(1,660,686.86)
Total	3,903,153.19	427,591.21	42,353.78	239,721.50	(3,193,486.70)
Net expense		Governmental (1,532,799.84)	Business-type (1,660,686.86)	Total (3,193,486.70)	
General Revenues					
Property taxes		72,149.52		72,149.52	
Sales taxes		145,675.18		145,675.18	
Intergovernmental		174,419.77		174,419.77	
Interest income		1,694.14	-	1,694.14	
Debt proceeds		846,258.11	1,755,180.00	2,601,438.11	
Other revenue		130,619.22	4,820.42	135,439.64	
Total general revenues		1,370,815.94	1,760,000.42	3,130,816.36	
Transfers in (out)		-	-	-	
Change in Net Position		(161,983.90)	99,313.56	(62,670.34)	
Net Position- January 1		218,501.17	233,497.24	451,998.41	
Net Position- December 31		56,517.27	332,810.80	389,328.07	

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

CITY OF HATTON
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
DECEMBER 31, 2020

	GENERAL	EMERGENCY	SALES TAX	STREET IMP	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and investments	31,963.26	(210,301.86)	111,091.80	32,542.20	91,221.87	56,517.27
Total Assets	31,963.26	(210,301.86)	111,091.80	32,542.20	91,221.87	56,517.27
LIABILITIES						
Total liabilities	-	-	-	-	-	-
FUND BALANCE						
Restricted for Capital Projects		-		32,542.20	-	32,542.20
Restricted for Economic Development			111,091.80		-	111,091.80
Assigned for General Government					91,221.87	91,221.87
Unassigned	31,963.26	(210,301.86)		-	-	(178,338.60)
Total fund balance	31,963.26	(210,301.86)	111,091.80	32,542.20	91,221.87	56,517.27
Total liabilities and fund balance	31,963.26	(210,301.86)	111,091.80	32,542.20	91,221.87	56,517.27

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

CITY OF HATTON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020

	GENERAL	EMERGENCY	SALES TAX	STREET IMP	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	63,217.83				8,931.69	72,149.52
Sales taxes	-		145,675.18			145,675.18
Special Assessments	-	-			11,291.25	11,291.25
Intergovernmental	59,057.57	113,836.07			43,879.91	216,773.55
Interest	1,694.14					1,694.14
Charges for services	-	-				-
Other	31,943.65		36,418.85		65,027.72	133,390.22
Total Revenues	155,913.19	113,836.07	182,094.03	-	129,130.57	580,973.86
Current:						
General government	124,239.90				63,240.95	187,480.85
Public safety	57,832.08					57,832.08
Highways and streets	4,222.73				62,420.84	66,643.57
Economic development			179,040.55			179,040.55
Capital outlays		285,304.91		812,913.91	-	1,098,218.82
Debt Service						-
Principal					-	-
Interest expense					-	-
Total Expenditures	186,294.71	285,304.91	179,040.55	812,913.91	125,661.79	1,589,215.87
Excess revenues (expenditures)	(30,381.52)	(171,468.84)	3,053.48	(812,913.91)	3,468.78	(1,008,242.01)
Other Financing Sources (Uses):						
Transfers in						-
Transfers out						-
Bond proceeds				846,258.11		846,258.11
Total other financing sources and	-	-	-	846,258.11	-	846,258.11
Net change in fund balances	(30,381.52)	(171,468.84)	3,053.48	33,344.20	3,468.78	(161,983.90)
Fund balance- beginning	62,344.78	(38,833.02)	108,038.32	(802.00)	87,753.09	218,501.17
Fund balance- ending	31,963.26	(210,301.86)	111,091.80	32,542.20	91,221.87	56,517.27

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

CITY OF HATTON
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2020

	Water	Sewer	Sanitation	Water Project	Other Funds	Total
ASSETS						
Cash and investments	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	332,810.80
Total Assets	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	332,810.80
LIABILITIES						
NET POSITION						
Restricted for:						-
Capital projects				71,052.52		71,052.52
Debt service					-	-
Unrestricted	91,285.95	188,282.12	(42,961.16)	-	25,151.37	261,758.28
Total net position	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	332,810.80

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

CITY OF HATTON
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2020

	Water	Sewer	Sanitation	Water Project	Other Funds	Total
OPERATING REVENUE						
Charges for services	155,871.44	127,500.57	141,448.20		-	424,820.21
OPERATING EXPENSES						
Salaries	14,659.97	12,668.45	4,222.82			31,551.24
Payroll taxes	5,405.90	5,405.90				10,811.80
Professional fees	1,363.83					1,363.83
Insurance						-
Contract services			138,193.68			138,193.68
Electricity	3,584.13	3,643.57				7,227.70
Supplies	-	7,004.00				7,004.00
Repairs and maintenance	24,831.82	-				24,831.82
Office expense	934.02	515.10	515.10			1,964.22
Purchased water	71,168.61					71,168.61
Miscellaneous	2,984.10	2,627.56	3,243.13			8,854.79
Total operating expenses	124,932.38	31,864.58	146,174.73		-	302,971.69
Operating income (loss)	30,939.06	95,635.99	(4,726.53)		-	121,848.52
NON-OPERATING REVENUE (EXPENSE)						
Bond proceeds				1,764,000.00		1,764,000.00
Bond principal paid	(10,900.00)	(50,000.00)		(882,000.00)		(942,900.00)
Grant income				228,430.25		228,430.25
Interest expense	(3,434.40)	(34,412.50)		(17,851.00)		(55,697.90)
Capital outlay				(1,021,187.73)		(1,021,187.73)
Other	4,820.42	-	-			4,820.42
Total non-operating rev (exp)	(9,513.98)	(84,412.50)	-	71,391.52	-	(22,534.96)
Income (loss) before transfers	21,425.08	11,223.49	(4,726.53)	71,391.52	-	99,313.56
Transfers in						-
Transfers out						-
Change in net position	21,425.08	11,223.49	(4,726.53)	71,391.52	-	99,313.56
Net Position- January 1	69,860.87	177,058.63	(38,234.63)	(339.00)	25,151.37	233,497.24
Net Position- December 31	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	332,810.80

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

CITY OF HATTON
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2020

	Water	Sewer	Sanitation	Water Project	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	155,871.44	127,500.57	141,448.20	-	-	424,820.21
Payments to suppliers	(110,272.41)	(19,196.13)	(141,951.91)	-	-	(271,420.45)
Payments to employees	(14,659.97)	(12,668.45)	(4,222.82)	-	-	(31,551.24)
Other receipts	4,820.42	-	-	228,430.25	-	233,250.67
Net cash provided by (used in) operating	35,759.48	95,635.99	(4,726.53)	228,430.25	-	355,099.19
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	-	-	-	-	-	-
Transfers from other funds	-	-	-	-	-	-
Net cash provided by (used in) noncapit	-	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	-	-	-	(1,021,187.73)	-	(1,021,187.73)
Principal paid on capital debt	(10,900.00)	(50,000.00)	-	(882,000.00)	-	(942,900.00)
Interest paid on capital debt	(3,434.40)	(34,412.50)	-	(17,851.00)	-	(55,697.90)
Debt proceeds	-	-	-	1,764,000.00	-	1,764,000.00
Net cash provided by (used in) capital at	(14,334.40)	(84,412.50)	-	(157,038.73)	-	(255,785.63)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends	-	-	-	-	-	(942,900.00)
Net cash provided by (used in) investing	-	-	-	-	-	(942,900.00)
Net increase (decrease) in cash and cash	21,425.08	11,223.49	(4,726.53)	71,391.52	-	(843,586.44)
Balance- beginning of year	69,860.87	177,058.63	(38,234.63)	(339.00)	25,151.37	233,497.24
Balance- end of year	91,285.95	188,282.12	(42,961.16)	71,052.52	25,151.37	(610,089.20)
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	30,939.06	95,635.99	(4,726.53)	-	-	121,848.52
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						-
Grant income				228,430.25		
Miscellaneous receipts (expense)	4,820.42	-	-	-	-	4,820.42
Net cash provided by operating	35,759.48	95,635.99	(4,726.53)	228,430.25	-	355,099.19

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

CITY OF HATTON
HATTON, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of HATTON (City) have been prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

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

Based on the above criteria the city no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

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

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

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

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

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

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

In the government-wide Statement of Net Position and the Statement of Activities, activities are presented using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

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

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

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

D. Budgets

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

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

E. Cash and Investments

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

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

F. Capital Assets

The City does not maintain fixed asset records.

G. Long-Term Obligations

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

H. Fund Balance

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

I. Interfund Transactions

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

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

J. Use of estimates

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Council did not amend the City budget for 2020.

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

NOTE 3 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2020, the City's carrying amount of deposits was \$389,328. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

Concentration of Credit Risk

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

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

NOTE 4: PROPERTY TAXES

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

NOTE 5: LONG-TERM DEBT

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

	Payable 2019	Increases	Decreases	Payable 2020	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	3,137,203	846,258		3,983,461	
BUSINESS-TYPE ACTIVITIES					
Interim financing		882,000	882,000		
Bonds Payable	1,110,000		50,000	1,060,000	50,000
USDA Loan		882,000		882,000	16,253
Notes payable	111,401		10,900	100,501	11,000
TOTAL	1,221,401	1,764,000	942,900	2,042,501	

BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
Refunding imp- 2020	09/01/2037	2.5%	1,060,000
Refunding imp- 2003	09/01/2028	2.5%	100,501

USDA LOAN PAYABLE

Refunding improvement-2020	05/01/2060	2.0%	882,000
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IRF NOTES PAYABLE

Refunding improvement-2018	05/01/2040	2.0%	3,983,461
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The City received an Infrastructure Revolving Loan Fund for street project. The loan award was for \$4,000,000 and \$3,983,461 was advanced through December 31, 2021. The loan is for 40 years at 2%. An amortization schedule will be prepared when the loan is finalized

CITY OF HATTON
NOTES TO FINANCIAL STATEMENTS- CONTINUED

Year Ending Bonds Payable			SRF Notes Payable			
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2021	50,000	34,038	11,000	3,030	16,253	13,230
2022	55,000	33,037	11,500	2,700	16,496	12,987
2023	55,000	31,938	12,000	2,355	16,744	12,739
2024	55,000	30,562	12,500	1,995	16,995	12,488
2025	55,000	29,188	12,500	1,620	17,250	12,233
2026-2030	310,000	120,662	41,001	2,550	90,210	57,205
2031-2035	370,000	65,413			97,182	50,233
2036-2040	110,000	5,750			104,693	42,722
2041-2045	110,000	5,750			112,783	34,632
2046-2050	110,000	5,750			121,501	25,914
2051-2055	110,000	5,750			130,889	16,526
2056-2060	110,000	5,750			141,004	6,845
TOTAL	1,060,000	350,588	100,501	14,250	882,000	297,754

NOTE 6: TRANSFERS

Transfers are used to 1)move unrestricted revenues to finance various programs 2)move sales tax revenues to fund programs and projects and 3)move revenues from the fund with collection authorization to the debt service funds as debt service principal and interest payments become due.

The City made no transfers in 2020

NOTE 7: FUND DEFICITS

The City had a fund deficit in the Sewer Emergency Fund- \$210,302; Sanitation Fund- \$42,961 These deficits will be eliminated will be eliminated with future revenues and transfers.

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence. The State Bonding Fund currently provides the City with blanket fidelity bond coverage for its employees. The State Bonding fund does not currently charge any premium for this coverage. The City has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

CITY OF HATTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-through <u>Grantor/Program Title</u>	CFDA <u>Number</u>	<u>Expenses</u>
U.S. Department of Agriculture- Water and Waste Disposal System	10.760	<u>1,030,219</u>
U.S. Department of Housing and Urban Development Passed through State Division of Community Services Community Development Block Grant	14.228	<u>141,968</u>
U.S. Department of Homeland Security Passed through State Department of Emergency Services Disaster Grants- Public Assistance	97.036	<u>173,921</u>
Total		<u>1,346,108</u> =====

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2020. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portions of the operations of the City, it is not intended to be and does not present the financial position or changes in net position of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are allowable or are limited as to reimbursement. The City has not elected to use the 10% de minimis cost rate.

Harold J. Rotunda

Certified Public Accountant

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

To the Governing Board
City of Hatton
Hatton, North Dakota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and each major fund of City of Hatton as of and for the year ended December 31, 2020 , and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated September 1, 2023.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies [2020-001 and 2020-002].

Compliance and Other Matters

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

City of Hatton's Responses to Findings

City of Hatton's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. City of Hatton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Fargo, North Dakota
September 1, 2023

Harold J. Rotunda

Certified Public Accountant

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM COMPLIANCE

Independent Auditor's Report

To the Governing Board
City of Hatton
Hatton, North Dakota

Report on Compliance for Each Major Federal Program

I have audited City of Hatton's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of City of Hatton's major federal programs for the year ended December 31, 2020. City of Hatton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of City of Hatton's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hatton's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Hatton's compliance.

Opinion on Each Major Federal Program

In my opinion, City of Hatton complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of City of Hatton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Hatton's internal control, over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Hatton's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Fargo, North Dakota
September 1, 2023

CITY OF HATTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Funds	Unmodified
Remaining Fund information	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	_____	Yes	<u>X</u>	No
Significant deficiencies identified not Considered to be material weaknesses?	<u>X</u>	Yes	_____	No
Noncompliance material to financial statements Noted?	_____	Yes	<u>X</u>	No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?	_____	Yes	<u>X</u>	No
Reportable conditions identified not considered To be material weaknesses?	_____	Yes	<u>X</u>	None

Type of auditor's report issued on compliance for

Major programs:	Unmodified
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Any audit findings disclosed that are required to be

Reported in accordance with CFR

Section 200.516?	_____	Yes	<u>x</u>	No
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program Or Cluster</u>
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10.760	Water and Waste Disposal System
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Dollar threshold used to distinguish between Type

A and B programs:	\$750,000
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Auditee qualified as low-risk auditee?	_____	Yes	<u>X</u>	No
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CITY OF HATTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Section II- Financial Statement Findings

2020-001 Segregation of Duties

Criteria

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

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

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

Effect

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

Recommendation

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

Views of responsible officials and planned corrective actions

The City will review its current monitoring functions and determine if any additional monitoring procedures are warranted.

CITY OF HATTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

2020-002 Financial Statement Preparation

Criteria

Management of the City is responsible for the preparation of the City's annual financial statements to ensure that the financial statements and accompanying note disclosures are reliable, accurate, free of material misstatement in accordance with the modified cash basis of accounting.

Condition

The City does not prepare the financial statements, including the accompanying note disclosures, in conformity with the modified cash basis of accounting. Management has elected to have the financial statements and note disclosures prepared by the auditors.

Cause

Management is not fully knowledgeable of the process of preparing financial statements in compliance with the modified cash basis of accounting.

Effect

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

Recommendation

I recommend that management continue to obtain sufficient knowledge to prepare the financial statements and accompanying note disclosures in accordance with the modified cash basis of accounting.

Views of responsible officials

Agree. The City is aware that there is a risk having the auditor prepare the financial statements and accompanying note disclosures.

Section III - Federal Award Findings and Questioned Costs

None

CITY OF HATTON
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

2019-001 Segregation of Duties

Criteria

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

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

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

Effect

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

Status

This is a repeat finding, see current year finding 2020-001.

CITY OF HATTON
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

2019-002 Financial Statement Preparation and Journal Entries

Criteria

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

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City's Board. However, the City has not designed internal controls to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles of accounting for external reporting. The City is aware of this deficiency, and obtains auditor assistance in the preparation of the City's annual financial statements.

Cause

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

Effect

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

Status

This is a repeat finding, see current finding 2020-002

CITY OF HATTON
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2020

2020-001

Contact Person- Dan Cute

Corrective Action Plan- Due to the small size of the City, it is not cost effective for the City to properly address this significant deficiency.

Completion Date- December 31, 2020

2020-002

Contact Person- Dan Cute

Corrective Action Plan- Due to the financial efficiency and time constraints, it has been determined by the City's management it is in the best interest of the City to have our auditors prepare the financial statements