

AUDIT REPORT

**CITY OF HAZEN
Hazen, North Dakota**

For the Year Ended December 31, 2023

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAZEN
Hazen, North Dakota

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CITY OF HAZEN
Hazen, North Dakota

CITY OFFICIALS
December 31, 2023

Jerry Obenauer	Commission President
Danial Pillar	Commission Vice President
Jason Haack	Commissioner
Casey Stern	Commissioner
Dustin Wiedrich	Commissioner
Monte Erhardt	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

Specializing in Governmental Auditing

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hazen
Hazen, North Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazen, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the city as of December 31, 2023, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

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

Emphasis of Matter – Basis of Accounting

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the city's ability to continue as a going concern for a reasonable period of time.

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

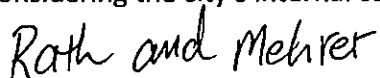
Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the city's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 17, 2024

CITY OF HAZEN
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2023

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Cash, Cash Equivalents and Investments	4,150,164.68	902,337.61	5,052,502.29
Capital Assets (net of accumulated depreciation):			
Land	562,410.00	80,000.00	642,410.00
Buildings and Infrastructure	10,239,870.00	3,836,122.00	14,075,992.00
Machinery and Vehicles	842,686.00	247,642.00	1,090,328.00
Total Capital Assets	11,644,966.00	4,163,764.00	15,808,730.00
Total Assets	15,795,130.68	5,066,101.61	20,861,232.29
<u>Liabilities:</u>			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loan Payable	26,391.50		26,391.50
Special Assessment Bonds Payable	502,993.73		502,993.73
Revenue Bonds Payable		75,000.00	75,000.00
Due After One Year:			
Bank Loan Payable	264,003.02		264,003.02
Special Assessment Bonds Payable	6,939,779.38		6,939,779.38
Revenue Bonds Payable		16,000.00	16,000.00
Total Liabilities	7,733,167.63	91,000.00	7,824,167.63
<u>NET POSITION:</u>			
Net Investment in Capital Assets	3,911,798.37	4,072,764.00	7,984,562.37
Restricted for:			
Special Purposes	2,154,487.33		2,154,487.33
Debt Service	783,111.11	10,000.00	793,111.11
Water Meters		288,848.67	288,848.67
Lift Station		217,297.03	217,297.03
Unrestricted	1,212,566.24	386,191.91	1,598,758.15
Total Net Position	8,061,963.05	4,975,101.61	13,037,064.66

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2023

	Net (Expense) Revenue and Change in Net Position				
	Program Revenues		Primary Government		
	Charges for	Operating Grants	Governmental	Business-Type	
Expenses	Services	and Contributions	Activities	Activities	Total
Functions/Programs					
Primary Government					
<u>Governmental Activities:</u>					
General Government	537,660.43	46,007.79	(491,652.64)		(491,652.64)
Public Safety	688,929.27	6,370.00	69,783.83	(612,775.44)	(612,775.44)
Streets and Public Works	890,880.30	45,284.89	537,803.46	(307,791.95)	(307,791.95)
Urban and Economic Development	248,646.80	113,560.43	5,000.00	(130,086.37)	(130,086.37)
Culture and Recreation	178,346.40	46,121.93	20,308.82	(111,915.65)	(111,915.65)
Conservation of Natural Resources	9,218.00			(9,218.00)	(9,218.00)
Other	335,687.54	33,561.13	95,504.00	(206,622.41)	(206,622.41)
Interest on Long-Term Debt	160,101.91		689,055.10	528,953.19	528,953.19
Total Governmental Activities	3,049,470.65	290,906.17	1,417,455.21	(1,341,109.27)	(1,341,109.27)
<u>Business-Type Activities:</u>					
Water	795,887.91	716,593.59	105,237.46	25,943.14	25,943.14
Sewer	232,209.53	178,143.83	50,798.00	(3,267.70)	(3,267.70)
Garbage	308,091.61	256,408.31		(51,683.30)	(51,683.30)
Total Business-Type Activities	1,336,189.05	1,151,145.73		(29,007.86)	(29,007.86)
Total Primary Government	4,385,659.70	1,442,051.90	1,417,455.21	(1,341,109.27)	(1,370,117.13)
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes			371,307.21		371,307.21
Property taxes; levied for special purposes			137,513.13		137,513.13
Cigarette taxes			3,989.54		3,989.54
Coal severance taxes			385,077.06		385,077.06
Coal conversion taxes			230,460.26		230,460.26
City sales tax			416,694.89		416,694.89
Restaurant and lodging taxes			44,532.76		44,532.76
Occupancy taxes			3,815.86		3,815.86
Intergovernmental revenue not restricted to specific programs			187,799.74		187,799.74
Earnings on investments and other revenue			173,685.43	155.15	173,840.58
Transfers			(278,031.57)	278,031.57	-
Total General Revenues and Transfers			1,676,844.31	278,186.72	1,955,031.03
Change in Net Position			335,735.04	249,178.86	584,913.90
Net Position - January 1			7,726,228.01	4,725,922.75	12,452,150.76
Net Position - December 31			8,061,963.05	4,975,101.61	13,037,064.66

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

CITY OF HAZEN
Hazen, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2023

	Major Funds							
	City Share of						Other	Total
			Special		City Sales	HCD - City	Governmental	Governmental
	General	Highway	Assessments	Transportation	Tax	Enterprises	Funds	Funds
ASSETS:								
Cash, Cash Equivalents and Investments	1,009,875.73	442,493.71			905,892.59	545,091.54	1,246,811.11	4,150,164.68
Interfund Receivables	137,327.44							137,327.44
Total Assets	1,147,203.17	442,493.71	-	-	905,892.59	545,091.54	1,246,811.11	4,287,492.12
LIABILITIES AND FUND BALANCES								
Liabilities:								
Interfund Payables			119,817.08	17,510.36				137,327.44
Fund Balances:								
Restricted for:								
Streets and Public Works		442,493.71					132,916.17	575,409.88
Urban and Economic Development					905,892.59	545,091.54		1,450,984.13
Culture and Recreation							127,168.34	127,168.34
Emergency							1,382.06	1,382.06
Cemetery							55,163.15	55,163.15
Debt Service							783,111.11	783,111.11
Assigned to:								
Public Safety	100,446.27							100,446.27
Other Purposes	80,277.03						68,315.09	148,592.12
Building and Equipment	414,030.52							414,030.52
Street Repairs							78,755.19	78,755.19
Technology	22,587.00							22,587.00
Bike Path	285.77							285.77
Forestry	40,025.00							40,025.00
Unassigned	489,551.58		(119,817.08)	(17,510.36)	-	-		352,224.14
Total Fund Balances	1,147,203.17	442,493.71	(119,817.08)	(17,510.36)	905,892.59	545,091.54	1,246,811.11	4,150,164.68
Total Liabilities and Fund Balances	1,147,203.17	442,493.71	-	-	905,892.59	545,091.54	1,246,811.11	4,287,492.12

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

CITY OF HAZEN
Hazen, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
December 31, 2023

Total Fund Balances for Governmental Funds		4,150,164.68
Total net position reported for governmental 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	18,074,283.00	
Less Accumulated Depreciation	<u>(6,429,317.00)</u>	
Net Capital Assets		11,644,966.00
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2023 are:		
Bank Loan Payable	(290,394.52)	
Special Assessment Bonds Payable	<u>(7,442,773.11)</u>	
Total Long-Term Liabilities		<u>(7,733,167.63)</u>
Total Net Position of Governmental Activities		<u><u>8,061,963.05</u></u>

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2023

	Major Funds						Other	Total
	General	Highway	City Share of Special Assessments	Transportation	City Sales Tax	HCD - City Enterprises	Governmental Funds	Governmental Funds
Revenues:								
Taxes	374,408.68			30,164.29	206,796.73	206,796.69	128,362.57	946,528.96
Special Assessments			27,334.89				689,055.10	716,389.99
Licenses, Permits and Fees	46,007.79							46,007.79
Intergovernmental	824,504.85	145,129.54		95,504.00			419,088.32	1,484,226.71
Charges for Services	45,284.89			32,128.00				77,412.89
Fines and Forfeits	1,370.00							1,370.00
Miscellaneous	308,944.85	46,073.89		4,124.57	3,159.63	943.78	28,054.20	391,300.92
Total Revenues	1,600,521.06	191,203.43	27,334.89	161,920.86	209,956.36	207,740.47	1,264,560.19	3,663,237.26
Expenditures:								
Current:								
General Government	528,499.43							528,499.43
Public Safety	625,183.27							625,183.27
Streets and Public Works	314,508.57	155,080.73					15,250.00	484,839.30
Urban and Economic Development	103,988.62					68,908.08	75,750.10	248,646.80
Culture and Recreation	114,492.23						62,121.17	176,613.40
Conservation of Natural Resources	9,218.00							9,218.00
Other	29,934.05		60,523.68	215,663.81			1,220.00	307,341.54
Capital Outlay	8,000.00							8,000.00
Debt Service:								
Principal	25,569.07						502,263.99	527,833.06
Interest and Service Charges	12,014.72						148,087.19	160,101.91
Total Expenditures	1,771,407.96	155,080.73	60,523.68	215,663.81	-	68,908.08	804,692.45	3,076,276.71
Excess (Deficiency) of Revenue Over (Under) Expenditures	(170,886.90)	36,122.70	(33,188.79)	(53,742.95)	209,956.36	138,832.39	459,867.74	586,960.55
Other Financing Sources (Uses):								
Transfers In	11,000.00	6,000.00		5,000.00			413,752.17	435,752.17
Transfers Out	(11,000.00)	(6,000.00)		(5,000.00)	(413,752.17)		(278,031.57)	(713,783.74)
Total Other Financing Sources (Uses)	-	-	-	-	(413,752.17)	-	135,720.60	(278,031.57)
Net Changes in Fund Balances	(170,886.90)	36,122.70	(33,188.79)	(53,742.95)	(203,795.81)	138,832.39	595,588.34	308,928.98
Fund Balance - January 1	1,318,090.07	406,371.01	(86,628.29)	36,232.59	1,109,688.40	406,259.15	651,222.77	3,841,235.70
Fund Balance - December 31	1,147,203.17	442,493.71	(119,817.08)	(17,510.36)	905,892.59	545,091.54	1,246,811.11	4,150,164.68

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

CITY OF HAZEN
Hazen, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2023

Net Change in Fund Balances - Total Governmental Funds	308,928.98
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	8,000.00	
Current Year Depreciation Expense	<u>(509,027.00)</u>	(501,027.00)

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

Debt Proceeds	-	
Repayment of Debt	<u>527,833.06</u>	<u>527,833.06</u>

Change in Net Position of Governmental Activities	<u><u>335,735.04</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HAZEN
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2023

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	236,995.17	441,789.12	223,553.32	902,337.61
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depreciation):				
Land		70,000.00	10,000.00	80,000.00
Buildings and Infrastructure	3,559,172.00	276,950.00		3,836,122.00
Machinery and Vehicles		65,039.00	182,603.00	247,642.00
Total Noncurrent Assets	3,559,172.00	411,989.00	192,603.00	4,163,764.00
Total Assets	3,796,167.17	853,778.12	416,156.32	5,066,101.61
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	60,000.00	15,000.00		75,000.00
<u>Noncurrent Liabilities:</u>				
Revenue Bonds Payable		16,000.00		16,000.00
Total Liabilities	60,000.00	31,000.00	-	91,000.00
<u>NET POSITION</u>				
Net Investment in Capital Assets	3,499,172.00	380,989.00	192,603.00	4,072,764.00
Restricted for:				
Debt Service		10,000.00		10,000.00
Water Meters	288,848.67			288,848.67
Lift Station		217,297.03		217,297.03
Unrestricted	(51,853.50)	214,492.09	223,553.32	386,191.91
Total Net Position	3,736,167.17	822,778.12	416,156.32	4,975,101.61

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2023

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	656,914.14			656,914.14
Sewer Collections		141,662.90		141,662.90
Garbage Collections			249,434.51	249,434.51
Other Collections	59,679.45	36,480.93	6,973.80	103,134.18
Total Operating Revenues	716,593.59	178,143.83	256,408.31	1,151,145.73
<u>Operating Expenses:</u>				
Salaries and Benefits	75,384.05	50,210.15	123,797.19	249,391.39
Health Insurance	17,442.41	12,505.59	41,305.76	71,253.76
Utilities	5,065.39	7,867.77		12,933.16
Office Supplies and Expenses	10,766.65	4,832.87	7,131.91	22,731.43
Operations, Repairs and Maintenance	49,078.76	131,333.31	20,891.41	201,303.48
Water Purchases	507,660.04			507,660.04
Tipping Fees			80,400.35	80,400.35
Garbage Containers			4,374.99	4,374.99
Miscellaneous	28.74	689.34		718.08
Depreciation	126,848.00	23,428.00	30,190.00	180,466.00
Total Operating Expenses	792,274.04	230,867.03	308,091.61	1,331,232.68
Operating Income (Loss)	(75,680.45)	(52,723.20)	(51,683.30)	(180,086.95)
<u>Non-Operating Revenues (Expenses):</u>				
Department of Water Resources Grant	105,237.46			105,237.46
CWSRF PAR Grant		50,798.00		50,798.00
Interest	155.15			155.15
Other Project Costs	(163.87)			(163.87)
Debt Service - Interest and Service Charges	(3,450.00)	(1,342.50)		(4,792.50)
Total Non Operating Revenues (Expenses)	101,778.74	49,455.50	-	151,234.24
Income (Loss) Before Transfers	26,098.29	(3,267.70)	(51,683.30)	(28,852.71)
Transfers In	283,031.57	5,000.00	19,000.00	307,031.57
Transfers Out	(5,000.00)	(5,000.00)	(19,000.00)	(29,000.00)
Change in Net Position	304,129.86	(3,267.70)	(51,683.30)	249,178.86
Net Position - January 1	3,432,037.31	826,045.82	467,839.62	4,725,922.75
Net Position - December 31	3,736,167.17	822,778.12	416,156.32	4,975,101.61

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year ended December 31, 2023

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Cash flows from operating activities:</u>				
Receipts from customers	716,593.59	178,143.83	256,408.31	1,151,145.73
Payments to suppliers and employees	(665,426.04)	(207,439.03)	(277,901.61)	(1,150,766.68)
Net cash provided (used) by operating activities	51,167.55	(29,295.20)	(21,493.30)	379.05
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	283,031.57	5,000.00	19,000.00	307,031.57
Transfers out	(5,000.00)	(5,000.00)	(19,000.00)	(29,000.00)
Net cash provided (used) by capital and related financing activities	278,031.57	-	-	278,031.57
<u>Cash flows from capital and related financing activities:</u>				
Department of water resources grant	105,237.46			105,237.46
CWSRF PAR grant		50,798.00		50,798.00
Water tank storage project	(198,000.00)			(198,000.00)
Other project costs	(163.87)			(163.87)
Principal payments on revenue bonds	(60,000.00)	(15,000.00)		(75,000.00)
Interest payments and service charges	(3,450.00)	(1,342.50)		(4,792.50)
Net cash provided (used) by capital and related financing activities	(156,376.41)	34,455.50	-	(121,920.91)
<u>Cash flows from investing activities:</u>				
Interest income	155.15			155.15
Net increase (decrease) in cash and cash equivalents	172,977.86	5,160.30	(21,493.30)	156,644.86
Cash and cash equivalents, January 1	64,017.31	436,628.82	245,046.62	745,692.75
Cash and cash equivalents, December 31	236,995.17	441,789.12	223,553.32	902,337.61
 <u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>				
Operating income (loss)	(75,680.45)	(52,723.20)	(51,683.30)	(180,086.95)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	126,848.00	23,428.00	30,190.00	180,466.00
Net cash provided (used) by operating activities	51,167.55	(29,295.20)	(21,493.30)	379.05

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2023

	<u>Custodial Funds</u>
<u>Assets:</u>	
Due from Other Governments	<u>6,863.03</u>
<u>Net Position:</u>	
Restricted For:	
Organizations and Other Governments	<u>6,863.03</u>

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Changes in Net Position
Modified Cash Basis - Fiduciary Fund
For the Year Ended December 31, 2023

	<u>Custodial Funds</u>
<u>Additions:</u>	
Sales tax collections for other governments	206,796.66
Property tax collections for other governments	7,053.28
State aid collections for other governments	<u>43,196.27</u>
 Total Additions	 <u>257,046.21</u>
 <u>Deductions:</u>	
Payments of sales tax to other governments	206,796.66
Payments of state aid to other governments	<u>43,196.27</u>
 Total Deductions	 <u>249,992.93</u>
 Change in Net Position	 <u>7,053.28</u>
 Net Position - January 1	 <u>(190.25)</u>
 Net Position - December 31	 <u><u>6,863.03</u></u>

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

CITY OF HAZEN
Hazen, North Dakota

Notes to the Financial Statements
December 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

General. 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.

Highway. This fund accounts for the state highway distribution tax to be used for street repairs and maintenance.

City Share of Special Assessments. This fund accounts for a special levy to pay the city's share of special assessments on city owned property.

Transportation. This fund accounts for a tax levy and state and federal grants to be used for city busing purposes.

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

HCD – City Enterprises. This fund accounts for a portion of the city's sales tax collections to be used for economic development projects.

The city reports the following major enterprise funds:

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

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

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

Additionally, the city reports the following type of fiduciary fund:

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

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

F. Long-Term Obligations

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

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

G. Fund Equity

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

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

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

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

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

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

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

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city’s policy to use restricted amounts first and then unrestricted amounts as

they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

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

H. Interfund Transactions

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

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

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

I. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2023 the city's carrying amount of deposits was \$5,059,365 and the bank balance was \$5,124,651. Of the bank balance, \$749,519 was covered by Federal Depository Insurance. The remaining balance of \$4,375,132 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2023, the city held certificates of deposit in the amount of \$658,775, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by a negative cash balance in various funds. The amount shown as interfund payables represents the amount of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2023 are as follows:

	Receivable Fund	Payable Fund
General	137,327.44	
City Share of Special Assessments		119,817.08
Transportation		17,510.36

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2023:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	562,410			562,410
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	14,890,301			14,890,301
Machinery and Vehicles	2,650,465	8,000	36,893	2,621,572
Total	17,540,766	8,000	36,893	17,511,873
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,264,566	385,865		4,650,431
Machinery and Vehicles	1,692,617	123,162	36,893	1,778,886
Total	5,957,183	509,027	36,893	6,429,317
Total capital assets being depreciated, net	11,583,583	(501,027)	-	11,082,556
Governmental Activities Capital Assets, Net	12,145,993	(501,027)	-	11,644,966
	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	80,000			80,000
Construction in Progress	2,717,300	198,000	2,915,300	-
Total	2,797,300	198,000	2,915,300	80,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,475,453	2,915,300		6,390,753
Machinery and Vehicles	1,053,821			1,053,821
Total	4,529,274	2,915,300	-	7,444,574
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	2,435,862	118,769		2,554,631
Machinery and Vehicles	744,482	61,697		806,179
Total	3,180,344	180,466	-	3,360,810
Total capital assets being depreciated, net	1,348,930	2,734,834	-	4,083,764
Business-Type Activities Capital Assets, Net	4,146,230	2,932,834	2,915,300	4,163,764

Depreciation expense was charged to functions/programs of the city as follows for the year ended December 31, 2023:

<u>Governmental Activities:</u>	
General Government	9,161
Public Safety	63,746
Streets and Public Works	406,041
Culture and Recreation	1,733
Other	28,346
Total	<u>509,027</u>
<u>Business-type Activities:</u>	
Water	126,848
Sewer	23,428
Garbage	30,190
Total	<u>180,466</u>

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2023, the following changes occurred in the liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bank Loan Payable	315,964		25,569	290,395	26,392
Special Assessment Bonds Payable	7,945,037		502,264	7,442,773	502,994
Total	<u>8,261,001</u>	<u>-</u>	<u>527,833</u>	<u>7,733,168</u>	<u>529,386</u>

Business-type Activities (Proprietary Funds):

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	<u>166,000</u>		<u>75,000</u>	<u>91,000</u>	<u>75,000</u>

Outstanding debt at December 31, 2023 consists of the following:

Governmental Activities:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2023 is as follows: -

Bank Loan Payable. The city has taken out a loan to provide funds for the purchase of a fire truck. Bank loan payable at December 31, 2023 is as follows:

\$423,714.00 loan payable with the Union State Bank, due in annual installments of \$37,583.79 including interest at 3.75% through January 22, 2033.	<u>290,394.52</u>
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The annual requirements to amortize the outstanding bank loan payable is as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2024	26,391.50	11,192.29
2025	27,518.67	10,065.12
2026	28,592.46	8,991.33
2027	29,679.57	7,904.22
2028	30,808.01	6,775.78
2029-2033	<u>147,404.31</u>	<u>15,411.29</u>
Total	<u>290,394.52</u>	<u>60,340.03</u>

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the construction and/or improvement streets, flood protection and water and sewer lines. Special assessment bonds outstanding at December 31, 2023 are as follows:

Special Assessment Bonds

\$530,000.00 Refunding Improvement Bonds of 2010; due in annual installments of \$30,000 to \$35,000 through May 1, 2025; interest is at 3.75%.	65,000.00
\$178,494.00 Improvement Warrants of 2011, due in annual installments of \$9,000 to \$11,000 through September 1, 2031; interest is at 2.50%.	83,000.00
\$429,792.62 Promissory Note of 2013; due in annual payments of \$37,452.81 through September 3, 2029; payments include interest at 3.5%.	197,324.63
\$720,000.00 Refunding Improvement Bonds of 2016; due in annual installments of \$45,000 to \$55,000 through May 1, 2031; interest is at 1.75%.	405,000.00
\$546,808.26 Definitive Improvement Warrant, Series 2016A; due in annual payments of \$322,645.19 through September 1, 2036; payments include interest at 2%.	370,044.84
\$5,961,765.99 Definitive Improvement Warrant, Series 2017; due in annual payments of \$141,524.09 through December 31, 2047; payments include interest at 2%.	5,367,403.64
\$1,325,000.00 Refunding Improvement Bonds of 2021; due in annual installments of \$185,000 to \$195,000 through May 1, 2028; interest is at .30% to .75%.	955,000.00
Total Special Assessment Bonds	<u>7,442,773.11</u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2024	502,993.73	146,724.44
2025	517,192.67	129,228.51
2026	492,441.79	120,866.89
2027	497,813.53	112,945.15
2028	509,311.00	104,878.93
2029-2033	1,387,512.68	426,135.65
2034-2038	1,214,757.24	298,419.21
2039-2043	1,237,853.27	177,387.63
2044-2047	1,082,897.20	49,296.03
Total	<u>7,442,773.11</u>	<u>1,565,882.44</u>

Business-type Activities (Proprietary Funds):

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2023 are as follows:

\$1,000,000.00 Water Improvement Revenue Bonds of 2004; due in annual installments of \$60,000 through September 1, 2024; interest is at 2.5%.	60,000.00
\$276,120.00 Sewer Improvement Revenue Bonds of 2005; due in annual installments of \$15,000 to \$16,000 through September 1, 2025; interest is at 2.5%.	31,000.00
Total Revenue Bonds	<u>91,000.00</u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2024	75,000.00	2,275.00
2025	16,000.00	400.00
Total	<u>91,000.00</u>	<u>2,675.00</u>

Note 7 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2023:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General - Police Department - Vehicle Reserve	6,000.00	
General - Fire Department - Truck Reserve	5,000.00	
General - Operating		11,000.00
Highway - Equipment Reserve	6,000.00	
Highway - Operating		6,000.00

Transportation - Vehicle Reserve	5,000.00	
Transportation - Operating		5,000.00
Water - Vehicle Reserve	5,000.00	
Water - Operating		5,000.00
Sewer - Equipment Reserve	5,000.00	
Sewer - Operating		5,000.00
Garbage - Truck Reserve	19,000.00	
Garbage - Operating		19,000.00
To set aside money for project reserves.		
Water - Operating	278,031.57	
Prairie Dog		278,031.57
To subsidize water tower project expenditures.		
Hazen Street Improvement Project 2016-1	299,192.17	
Hazen Street Improvement Project 2018-1	114,560.00	
City Sales Tax		413,752.17
To subsidize debt service payments.		

Note 8 DEFICIT FUND BALANCES

The following funds had a deficit balance at December 31, 2023:

<u>Special Revenue Funds</u>	
City Share of Special Assessments	(119,817.08)
Transportation - Operating	(96,192.36)
<u>Enterprise Fund</u>	
Water - Operating	(180,670.29)

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

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$2,142,666 for public assets.

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

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

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

Note 10 PENSION PLAN

The city provides benefits for all of its full-time employees through a defined contribution plan with Nationwide Retirement Solutions. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 7% of the employee's gross salary for the year. During the year ended December 31, 2023, the city contributed \$50,848.83.

Note 11 TAX ABATEMENTS

The city has not entered into any tax abatement agreements that would reduce the city's tax revenues for the year ended December 31, 2023.

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	388,500.00	388,500.00	374,408.68	(14,091.32)
Licenses, Permits and Fees	10,500.00	10,500.00	46,007.79	35,507.79
Intergovernmental	810,000.00	810,000.00	824,504.85	14,504.85
Charges for Services	39,000.00	39,000.00	45,284.89	6,284.89
Fines and Forfeits	4,000.00	4,000.00	1,370.00	(2,630.00)
Miscellaneous	243,698.00	331,907.14	308,944.85	(22,962.29)
Total Revenues	1,495,698.00	1,583,907.14	1,600,521.06	16,613.92
<u>Expenditures:</u>				
Current:				
General Government	677,794.00	677,794.00	632,488.05	45,305.95
Public Safety	606,421.00	606,421.00	633,183.27	(26,762.27)
Streets and Public Works	421,936.00	421,936.00	314,508.57	107,427.43
Culture and Recreation	143,586.00	143,586.00	114,492.23	29,093.77
Conservation of Natural Resources	86,812.00	86,812.00	9,218.00	77,594.00
Other	18,000.00	18,000.00	29,934.05	(11,934.05)
Debt Service:				
Principal			25,569.07	(25,569.07)
Interest and Service Charges			12,014.72	(12,014.72)
Total Expenditures	1,954,549.00	1,954,549.00	1,771,407.96	183,141.04
Excess (Deficiency) of Revenues Over (Under) Expenditures	(458,851.00)	(370,641.86)	(170,886.90)	199,754.96
<u>Other Financing Sources (Uses):</u>				
Transfers In	10,000.00	10,000.00	11,000.00	1,000.00
Transfers Out	-	-	(11,000.00)	(11,000.00)
Total Other Financing Sources (Uses)	10,000.00	10,000.00	-	(10,000.00)
Net Change in Fund Balances	(448,851.00)	(360,641.86)	(170,886.90)	189,754.96
Fund Balance - January 1	1,318,090.07	1,318,090.07	1,318,090.07	
Fund Balance - December 31	869,239.07	957,448.21	1,147,203.17	189,754.96

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Highway Fund
For the Year Ended December 31, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	140,000.00	143,372.67	145,129.54	1,756.87
Miscellaneous	17,000.00	17,000.00	46,073.89	29,073.89
Total Revenues	157,000.00	160,372.67	191,203.43	30,830.76
<u>Expenditures:</u>				
Current:				
Streets and Public Works	194,200.00	194,200.00	155,080.73	39,119.27
Excess (Deficiency) of Revenues Over (Under) Expenditures	(37,200.00)	(33,827.33)	36,122.70	69,950.03
<u>Other Financing (Uses):</u>				
Transfers In			6,000.00	6,000.00
Transfers Out			(6,000.00)	(6,000.00)
Total Other Financing Sources (Uses):	-	-	-	-
Net Change in Fund Balances	(37,200.00)	(33,827.33)	36,122.70	69,950.03
Fund Balance - January 1	406,371.01	406,371.01	406,371.01	
Fund Balance - December 31	369,171.01	372,543.68	442,493.71	69,950.03

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City Share of Special Assessments Fund
For the Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Special Assessments	29,000.00	27,334.89	(1,665.11)
<u>Expenditures:</u>			
Current:			
Other	63,000.00	60,523.68	2,476.32
Net Change in Fund Balances	(34,000.00)	(33,188.79)	811.21
Fund Balance - January 1	(86,628.29)	(86,628.29)	
Fund Balance - December 31	(120,628.29)	(119,817.08)	811.21

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Transportation Fund
For the Year Ended December 31, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	32,000.00	32,000.00	30,164.29	(1,835.71)
Intergovernmental	80,000.00	105,420.86	95,504.00	(9,916.86)
Charges for Services	19,500.00	19,500.00	32,128.00	12,628.00
Miscellaneous	4,000.00	4,000.00	4,124.57	124.57
Total Revenues	135,500.00	160,920.86	161,920.86	1,000.00
<u>Expenditures:</u>				
Current:				
Other	243,365.00	243,365.00	215,663.81	27,701.19
Excess (Deficiency) of Revenues Over (Under) Expenditures	(107,865.00)	(82,444.14)	(53,742.95)	28,701.19
<u>Other Financing (Uses):</u>				
Transfers In			5,000.00	5,000.00
Transfers Out			(5,000.00)	(5,000.00)
Total Other Financing Sources (Uses):	-	-	-	-
Net Change in Fund Balances	(107,865.00)	(82,444.14)	(53,742.95)	28,701.19
Fund Balance - January 1	36,232.59	36,232.59	36,232.59	
Fund Balance - December 31	(71,632.41)	(46,211.55)	(17,510.36)	28,701.19

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City Sales Tax Fund
For the Year Ended December 31, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	126,000.00	206,796.73	206,796.73	-
Miscellaneous	600.00	3,159.63	3,159.63	-
Total Revenues	126,600.00	209,956.36	209,956.36	-
<u>Other Financing (Uses):</u>				
Transfers Out	(154,000.00)	(154,000.00)	(413,752.17)	(259,752.17)
Net Change in Fund Balances	(27,400.00)	55,956.36	(203,795.81)	(259,752.17)
Fund Balance - January 1	1,109,688.40	1,109,688.40	1,109,688.40	
Fund Balance - December 31	1,082,288.40	1,165,644.76	905,892.59	(259,752.17)

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
HCD City Enterprises Fund
For the Year Ended December 31, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	126,000.00	206,796.69	206,796.69	-
Other	110.00	943.78	943.78	-
Total Revenues	126,110.00	207,740.47	207,740.47	-
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	118,000.00	118,000.00	68,908.08	49,091.92
Net Change in Fund Balances	8,110.00	89,740.47	138,832.39	(49,091.92)
Fund Balance - January 1	406,259.15	406,259.15	406,259.15	
Fund Balance - December 31	414,369.15	495,999.62	545,091.54	(49,091.92)

CITY OF HAZEN
Hazen, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following budget amendments to the city's budget for the year ended December 31, 2023.

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
	<u>Estimated Revenues</u>		
General Fund	1,495,698.00	88,209.14	1,583,907.14
<u>Special Revenue Funds</u>			
Highway Fund	157,000.00	3,372.67	160,372.67
Transportation Fund	135,500.00	25,420.86	160,920.86
City Sales Tax Fund	126,600.00	83,356.36	209,956.36
HCD - City Enterprises Fund	126,110.00	81,630.47	207,740.47

CITY OF HAZEN
Hazen, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2023

	Balance 1-1-2023	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2023
Major Governmental Funds						
<u>General Fund</u>						
Operating	626,777.02	1,598,489.52		11,000.00	1,724,714.96	489,551.58
Building & Equipment - Reserve	412,575.60	1,454.92				414,030.52
Bike Path Reserve	285.77					285.77
Police Department - Vehicle Reserve	12,056.38		6,000.00			18,056.38
Fire Department - Siren Reserve	5,532.07					5,532.07
Fire Department - Truck Reserve	55,000.00		5,000.00			60,000.00
Technology Reserve	69,280.00				46,693.00	22,587.00
Safety Saves Reserve	13,275.00					13,275.00
Telecommunication Radio Reserve	30,000.00					30,000.00
Forestry Reserve	40,025.00					40,025.00
Liability Insurance Reserve	20,000.00					20,000.00
Police Department - Investigations Reserve	3,552.44	30.38				3,582.82
Unemployment Reserve	29,730.79	546.24				30,277.03
Total General Fund	1,318,090.07	1,600,521.06	11,000.00	11,000.00	1,771,407.96	1,147,203.17
<u>Highway Fund</u>						
Operating	149,118.58	190,872.67		6,000.00	155,080.73	178,910.52
Pickup Reserve	30,000.00					30,000.00
Equipment Reserve	222,252.43	330.76	6,000.00			228,583.19
Building Reserve	5,000.00					5,000.00
City Share of Special Assessments	(86,628.29)	27,334.89			60,523.68	(119,817.08)
<u>Transportation Fund</u>						
Operating	(37,449.41)	161,920.86		5,000.00	215,663.81	(96,192.36)
Vehicle Reserve	55,182.00		5,000.00			60,182.00
Building Reserve	18,500.00					18,500.00
City Sales Tax	1,109,688.40	209,956.36		413,752.17		905,892.59
HCD - City Enterprises	406,259.15	207,740.47			68,908.08	545,091.54
Total Major Governmental Funds	3,190,012.93	2,398,677.07	22,000.00	435,752.17	2,271,584.26	2,903,353.57
<u>Non-Major Governmental Funds</u>						
Prairie Dog	-	355,327.51		278,031.57		77,295.94
Special Assessment Deficiency	299,903.93	26,160.21				326,064.14
Reserve for City Lots	68,315.09					68,315.09
Reserve for Fayette Drive	78,755.19					78,755.19
Emergency	(512.54)	1,894.60				1,382.06
Job Development	-	23,608.31			23,608.31	-
Library	109,249.34	80,040.17			62,121.17	127,168.34
Cemetery	55,782.57	600.58			1,220.00	55,163.15
Visitors Promotions	3,793.17	48,348.62			52,141.79	-
Highway Special Distribution	12,055.08	43,565.15				55,620.23
S-2009 Sanitary Bore	69,568.06					69,568.06
Flood Protection District	31,062.98	34,742.57			39,188.75	26,616.80
Sanitary Sewer Main Replacement	48,169.29	8,741.03			11,760.00	45,150.32
Elbowoods W/S Improvement Dist. 2013-1	91,676.97	32,194.32			37,452.81	86,418.48
Hazen Street Improvement Project 2014-1	239,171.80	153,774.49			192,680.00	200,266.29
Hazen Street Improvement Project 2022-1	229.62					229.62
Hazen Street Improvement Project 2016-01	(312,219.88)	100,272.25	299,192.17		86,221.44	1,023.10
Hazen Street Improvement Project 2018-01	(143,777.90)	355,290.38	114,560.00		298,298.18	27,774.30
Total Non-Major Governmental Funds	651,222.77	1,264,560.19	413,752.17	278,031.57	804,692.45	1,246,811.11
Total Governmental Funds	3,841,235.70	3,663,237.26	435,752.17	713,783.74	3,076,276.71	4,150,164.68

(continued)

CITY OF HAZEN
Hazen, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2023
(continued)

	Balance 1-1-2023	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2023
Major Enterprise Funds						
<u>Water Fund</u>						
Operating	(348,648.15)	801,862.39	278,031.57	5,000.00	927,039.91	(200,794.10)
Building and Equipment Reserve	68,325.00					68,325.00
Water Treatment Plant Reserves	30,000.00					30,000.00
Meter Reserves	268,724.86	20,123.81				288,848.67
Equipment/Generator Reserve	8,000.00					8,000.00
Vehicle Reserve	17,615.60		5,000.00			22,615.60
Storage Tank Reserve	20,000.00					20,000.00
<u>Sewer Fund</u>						
Operating	133,401.40	215,961.82		5,000.00	223,781.53	120,581.69
Lift Station Reserve	204,317.02	12,980.01				217,297.03
Sewer Mains & Lagoon Reserve	60,000.00					60,000.00
Equipment Reserve	18,500.00		5,000.00			23,500.00
Debt Service Reserve	10,000.00					10,000.00
Vehicle Reserve	10,410.40					10,410.40
<u>Garbage Fund</u>						
Operating	63,323.02	256,408.31		19,000.00	277,901.61	22,829.72
Truck Reserve	121,723.60		19,000.00			140,723.60
Container Reserve	50,000.00					50,000.00
Safety Reserve	10,000.00					10,000.00
Total Major Enterprise Funds	745,692.75	1,307,336.34	307,031.57	29,000.00	1,428,723.05	902,337.61
Fiduciary Fund						
<u>Custodial Funds</u>						
Recreation	(183.29)	7,053.28				6,869.99
Senior Citizens	(6.96)					(6.96)
Hazen Park District	-	249,992.93			249,992.93	-
Total Custodial Funds	(190.25)	257,046.21	-	-	249,992.93	6,863.03
Total All Funds	4,586,738.20	5,227,619.81	742,783.74	742,783.74	4,754,992.69	5,059,365.32

Rath & Mehrer, P.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hazen
Hazen, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hazen, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated May 17, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 17, 2024

CITY OF HAZEN
Hazen, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2023

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported
- Noncompliance material to financial Statements noted? ☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2023-001 – Segregation of Duties

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

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

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

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

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

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

2. 2023-002 – Financial Statement Preparation

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

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

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

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

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

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