

**CITY OF HATTON**  
**INDEPENDENT AUDITOR'S REPORT**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2016**

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## Independent Auditor's Report

To the Governing Board  
City of Hatton  
Hatton, North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Hatton** as of and for the year ended **December 31, 2016**, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Hatton** as of **December 31, 2016**, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters


### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedules of revenues, expenditures, and changes in fund balances - budget and actual - general fund, parks and recreation fund, city sales tax fund, highway and equipment replacement and reserve funds on pages 39 through 41, schedules of employer's share of net pension liability and employer contributions on pages 42-43 and related notes on page 44-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the "Management's Discussion and Analysis" that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2017 on our consideration of the City of Hatton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hatton's internal control over financial reporting and compliance.

  
**OVERMOE & NELSON, LTD**  
Certified Public Accountants  
Grand Forks, North Dakota

February 6, 2017

**CITY OF HATTON  
STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2016**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ -	\$ -
Equity in Pooled Cash and Cash Equivalents	379,380	307,791	687,171
Property Tax Receivable, Current	17,065	-	17,065
Accounts Receivable	-	33,562	33,562
Due From Federal Sources	-	-	-
Due From State Sources	-	-	-
Due From Local Sources	6,736	-	6,736
Restricted Cash and Cash Equivalents	-	-	-
Property Tax Receivable, Non-Current	-	-	-
Bond Refunding Fees, Net	-	22,531	22,531
Capital Assets, Net	389,280	2,057,877	2,447,157
<b>Total Assets</b>	<b>\$ 792,461</b>	<b>\$ 2,421,761</b>	<b>\$ 3,214,222</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	\$ 12,445	\$ -	\$ 12,445
<b>Total Deferred Outflows of Resources</b>	<b>\$ 12,445</b>	<b>\$ -</b>	<b>\$ 12,445</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 45,963	\$ 26,209	\$ 72,172
Interest Payable	2,118	-	2,118
Due to Other Funds	-	-	-
Due to Others	-	-	-
Deferred Revenue - Grants	-	-	-
Current Portion of Long-Term Liabilities	15,532	50,000	65,532
Long-Term Liabilities	144,221	1,192,042	1,336,263
Net Pension Liability	64,646	-	64,646
<b>Total Liabilities</b>	<b>\$ 272,480</b>	<b>\$ 1,268,251</b>	<b>\$ 1,540,731</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenue	\$ -	\$ -	\$ -
Pension Related Deferred Inflows	7,859	-	7,859
<b>Total Deferred Inflows of Resources</b>	<b>\$ 7,859</b>	<b>\$ -</b>	<b>\$ 7,859</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 229,527	\$ 838,366	\$ 1,067,893
Restricted for Capital Projects	-	-	-
Restricted for Debt Service	-	-	-
Unrestricted	295,040	315,144	610,184
<b>Total Net Position</b>	<b>\$ 524,567</b>	<b>\$ 1,153,510</b>	<b>\$ 1,678,077</b>

**CITY OF HATTON**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Revenues				Net (Expense) Revenue And Changes in Net Position		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Activities</b>							
General Government	\$ 73,214	\$ 12,920	\$ 56,686	\$ -	\$ (3,608)	\$ -	\$ (3,608)
Public Safety	54,597	-	-	-	(54,597)	-	(54,597)
Highways and Public Improvement	140,847	16,326	44,230	-	(80,291)	-	(80,291)
Health and Welfare	32,295	-	-	-	(32,295)	-	(32,295)
Recreation	65,479	5,679	4,209	-	(55,591)	-	(55,591)
Economic Development	25,104	-	-	-	(25,104)	-	(25,104)
Library	3,449	-	-	-	(3,449)	-	(3,449)
Interest and Fiscal Charges on Long-Term Debt	4,773	-	-	-	(4,773)	-	(4,773)
<b>Total Governmental Activities</b>	<b>\$ 399,758</b>	<b>\$ 34,925</b>	<b>\$ 105,125</b>	<b>\$ -</b>	<b>\$ (259,708)</b>	<b>\$ -</b>	<b>\$ (259,708)</b>
<b>Business-Type Activities</b>							
Garbage Collection	\$ 149,375	\$ 138,679	\$ -	\$ -	\$ -	\$ (10,696)	\$ (10,696)
Mosquito Control Services	8,591	290	-	-	-	(8,301)	(8,301)
Sewer	106,534	123,279	-	-	-	16,745	16,745
Water Utility Services	163,495	153,633	-	-	-	(9,862)	(9,862)
<b>Total Business-Type Activities</b>	<b>\$ 427,995</b>	<b>\$ 415,881</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (12,114)</b>	<b>\$ (12,114)</b>
<b>Total Primary Government</b>	<b>\$ 827,753</b>	<b>\$ 450,806</b>	<b>\$ 105,125</b>	<b>\$ -</b>	<b>\$ (259,708)</b>	<b>\$ (12,114)</b>	<b>\$ (271,822)</b>

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

**CITY OF HATTON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Net (Expense) Revenue And Changes in Net Position		
	Governmental Activities	Business- Type Activities	Total
<b>General Revenues</b>			
Property Taxes	\$ 112,036	\$ -	\$ 112,036
Sales Tax	93,636	-	93,636
Interest and Investment Earnings	983	1,248	2,231
Other Revenues	312	-	312
<b>Total General Revenues</b>	<b>\$ 206,967</b>	<b>\$ 1,248</b>	<b>\$ 208,215</b>
<b>Gains and Transfers</b>			
Gain on Sales of Capital Assets	\$ 2,000	\$ -	\$ 2,000
Transfers	37,052	(37,052)	-
<b>Total Gains and Transfers</b>	<b>\$ 39,052</b>	<b>\$ (37,052)</b>	<b>\$ 2,000</b>
<b>Total General Revenues, Gains and Transfers</b>	<b>\$ 246,019</b>	<b>\$ (35,804)</b>	<b>\$ 210,215</b>
<b>Change in Net Position</b>	<b>\$ (13,689)</b>	<b>\$ (47,918)</b>	<b>\$ (61,607)</b>
<b>Beginning Net Position</b>	<b>538,256</b>	<b>1,201,428</b>	<b>1,739,684</b>
<b>Ending Net Position</b>	<b>\$ 524,567</b>	<b>\$ 1,153,510</b>	<b>\$ 1,678,077</b>

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

**CITY OF HATTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2016**

	General Fund	Parks and Recreation Fund	City Sales Tax Fund	Highway Fund	Equipment and Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in Pooled Cash and Equivalents	168,015	30,667	86,448	40,129	46,962	7,159	379,380
Property Tax Receivable	14,592	885	-	-	-	1,588	17,065
Due from Federal Sources	-	-	-	-	-	-	-
Due from State Sources	-	-	3,368	-	-	-	6,736
Due from Local Sources	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 182,607</b>	<b>\$ 34,920</b>	<b>\$ 89,816</b>	<b>\$ 40,129</b>	<b>\$ 46,962</b>	<b>\$ 8,747</b>	<b>\$ 403,181</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Total Deferred Outflows of Resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 182,607</b>	<b>\$ 34,920</b>	<b>\$ 89,816</b>	<b>\$ 40,129</b>	<b>\$ 46,962</b>	<b>\$ 8,747</b>	<b>\$ 403,181</b>
<b>LIABILITIES</b>							
Accounts Payable	\$ 508	\$ 150	\$ 39,338	\$ -	\$ 5,827	\$ 140	\$ 45,963
Due to Other Funds	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>\$ 508</b>	<b>\$ 150</b>	<b>\$ 39,338</b>	<b>\$ -</b>	<b>\$ 5,827</b>	<b>\$ 140</b>	<b>\$ 45,963</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred Revenue - Property Taxes	\$ 4,679	\$ 153	\$ -	\$ -	\$ -	\$ 245	\$ 5,077
<b>Total Deferred Inflows of Resources</b>	<b>\$ 4,679</b>	<b>\$ 153</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 245</b>	<b>\$ 5,077</b>

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



CITY OF HATTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2016

	General Fund	Parks and Recreation Fund	City Sales Tax Fund	Highway Fund	Equipment Replacement and Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>							
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-
Assigned	-	34,617	50,478	40,129	41,135	8,362	174,721
Unassigned	177,420	-	-	-	-	-	177,420
<b>Total Fund Balances</b>	\$ 177,420	\$ 34,617	\$ 50,478	\$ 40,129	\$ 41,135	\$ 8,362	\$ 352,141
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	\$ 182,607	\$ 34,920	\$ 89,816	\$ 40,129	\$ 46,962	\$ 8,747	\$ 403,181

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

**CITY OF HATTON**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Fund Balances - Governmental Funds** \$ 352,141

Amounts reported for governmental activities in the statement of net position are different because:

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

Governmental capital asset	\$ 728,226	
Less accumulated depreciation	<u>(338,946)</u>	389,280

Long-term liabilities, including notes payable are not due and payable in the current period and therefore are not included in governmental funds (159,753)

Property taxes not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds 5,077

Interest payable on notes payable is not considered due at year end and therefore are not included in governmental funds (2,118)

Net pension liability is not due and payable in the current period and, therefore, is not included in the governmental funds (64,646)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not included in governmental funds

Deferred inflows of resources related to pensions (7,859)

Deferred outflows of resources related to pension of \$12,445 = \$1,875 deferred outflows of resources pension expense and \$10,570 deferred outflows of employer contributions related to pension subsequent to the pension measurement date 12,445

**Net Position of Governmental Activities** \$ 524,567

**CITY OF HATTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Parks and Recreation Fund	City Sales Tax Fund	Highway Fund	Equipment Replacement and Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Local Sources	\$ 97,161	\$ 3,432	\$ -	\$ -	\$ -	\$ 9,646	\$ 110,239
Sales Tax	-	44,684	46,818	-	-	2,134	93,636
State Sources	56,686	4,209	-	14,581	29,649	-	105,125
Federal Sources	-	-	-	-	-	-	-
Fees and Other Non-Tax Revenues	12,920	5,679	-	-	16,326	-	34,925
Other	1,123	52	-	-	120	-	1,295
<b>Total Revenues</b>	\$ 167,890	\$ 58,056	\$ 46,818	\$ 14,581	\$ 46,095	\$ 11,780	\$ 345,220

	General Fund	Parks and Recreation Fund	City Sales Tax Fund	Highway Fund	Equipment Replacement and Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>EXPENDITURES</b>							
Current							
General Government	\$ 56,872	\$ -	\$ 40	\$ -	\$ -	\$ 4,958	\$ 61,870
Public Safety	51,380	-	-	-	-	-	51,380
Highways and Public Improvement	-	-	-	47,612	-	-	111,228
Health and Welfare	33,024	-	-	-	-	-	33,024
Recreation	-	65,479	-	-	-	-	65,479
Economic Development	1,645	-	23,459	-	-	-	25,104
Library	-	-	-	-	-	3,449	3,449
Debt Service	-	-	-	-	-	15,257	15,257
Principal Retirement	-	-	-	-	-	5,000	5,000
Interest and Fiscal Charges	-	-	-	-	-	-	-
Capital Outlay	-	-	65,652	-	-	-	65,652
Buildings and Equipment	-	-	-	-	-	-	-
<b>Total Expenditures</b>	\$ 142,921	\$ 65,479	\$ 89,151	\$ 47,612	\$ 63,616	\$ 28,664	\$ 437,443

<b>Excess (Deficiency) of Revenues Over Expenditures</b>	\$ 24,969	\$ (7,423)	\$ (42,333)	\$ (33,031)	\$ (17,521)	\$ (16,884)	\$ (92,223)
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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  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Parks and Recreation Fund	City Sales Tax Fund	Highway Fund	Equipment Replacement and Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers from Other Funds	\$ 23,000	\$ -	\$ -	\$ -	\$ -	\$ 20,257	\$ 43,257
Transfer to Other Funds	-	-	-	-	(6,205)	-	(6,205)
Proceeds from Sale of Fixed Assets	-	-	-	2,000	-	-	2,000
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 23,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ (6,205)</u>	<u>\$ 20,257</u>	<u>\$ 39,052</u>
<b>Net Change in Fund Balance</b>	\$ 47,969	\$ (7,423)	\$ (42,333)	\$ (31,031)	\$ (23,726)	\$ 3,373	\$ (53,171)
<b>Beginning Fund Balance</b>	129,451	42,040	92,811	71,160	64,861	4,989	405,312
<b>Ending Fund Balance</b>	<u>\$ 177,420</u>	<u>\$ 34,617</u>	<u>\$ 50,478</u>	<u>\$ 40,129</u>	<u>\$ 41,135</u>	<u>\$ 8,362</u>	<u>\$ 352,141</u>

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

**CITY OF HATTON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>(53,171)</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	\$ 65,652	
Less current year depreciation	<u>(44,180)</u>	21,472
Payments on notes payable is an expenditure in the governmental funds, but the payments decrease long-term liabilities in the statement of net position		
Loan Payment	\$ 15,257	
Accrued Interest	<u>227</u>	15,484
Property taxes not received within 60 days after the year end are not a current resource and therefore are not included in governmental funds, but all unpaid property taxes are in the statement of net position		
		1,797
Governmental funds report City pension contributions as expenditures. However in the statement of activities the cost of pension benefits earned net of employee contributions is included in pension expense		
City pension contributions	10,570	
Cost of benefits earned net of employee contributions	<u>(9,841)</u>	<u>729</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(13,689)</u></b>

CITY OF HATTON  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Garbage Fund	Mosquito Fund	Sewer Fund	Water Fund	Total Business-Type Enterprise Funds
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	19,008	16,250	201,610	70,923	307,791
Equity in Pooled Cash and Equivalents	-	-	-	-	-
Investments	10,971	-	10,119	12,472	33,562
Accounts Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Restricted Cash and Cash Equivalents	-	-	-	-	-
<b>Total Current Assets</b>	<b>\$ 29,979</b>	<b>\$ 16,250</b>	<b>\$ 211,729</b>	<b>\$ 83,395</b>	<b>\$ 341,353</b>
<b>Non-Current Assets</b>					
Bond Refunding Fee, Net	-	-	22,531	-	22,531
<b>Capital Assets</b>					
Sites	-	-	16,738	-	16,738
Water and Sewer System	-	-	1,998,077	860,000	2,858,077
Equipment	-	-	135,745	84,309	220,054
Less Accumulated Depreciation	-	-	(462,483)	(574,509)	(1,036,992)
<b>Total Capital Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,688,077</b>	<b>\$ 369,800</b>	<b>\$ 2,057,877</b>
<b>Total Assets</b>	<b>\$ 29,979</b>	<b>\$ 16,250</b>	<b>\$ 1,922,337</b>	<b>\$ 453,195</b>	<b>\$ 2,421,761</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 29,979</b>	<b>\$ 16,250</b>	<b>\$ 1,922,337</b>	<b>\$ 453,195</b>	<b>\$ 2,421,761</b>

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

**CITY OF HATTON**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Garbage Fund	Mosquito Fund	Sewer Fund	Water Fund	Total Business-Type Enterprise Funds
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	14,185	35	1,366	10,623	26,209
Interest Payable	-	-	-	-	-
Notes Payable, Current Portion	-	-	50,000	-	50,000
<b>Total Current Liabilities</b>	\$ 14,185	\$ 35	\$ 51,366	\$ 10,623	\$ 76,209
<b>Long-Term Liabilities</b>					
Notes Payable, Net of Current Portion	-	-	1,192,042	-	1,192,042
<b>Total Liabilities</b>	\$ 14,185	\$ 35	\$ 1,243,408	\$ 10,623	\$ 1,268,251
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Revenue	-	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET POSITION</b>					
Net Investment in Capital Assets	-	-	468,566	369,800	838,366
Restricted for Debt Service	15,794	16,215	210,363	72,772	315,144
Unrestricted	15,794	16,215	678,929	442,572	1,153,510
<b>Total Net Position</b>	\$ 29,979	\$ 16,250	\$ 1,922,337	\$ 453,195	\$ 2,421,761
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 29,979</u>	<u>\$ 16,250</u>	<u>\$ 1,922,337</u>	<u>\$ 453,195</u>	<u>\$ 2,421,761</u>

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

**CITY OF HATTON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Garbage Fund	Mosquito Fund	Sewer Fund	Water Fund	Total Business-Type Enterprise Funds
<b>OPERATING REVENUES</b>					
Charges for Sales and Services	\$ 138,679	\$ 290	\$ 123,279	\$ 153,483	\$ 415,731
Other	-	-	-	150	150
<b>Total Operating Revenues</b>	\$ 138,679	\$ 290	\$ 123,279	\$ 153,633	\$ 415,881
<b>OPERATING EXPENSES</b>					
Garbage Collection	\$ 149,375	\$ -	\$ -	\$ -	\$ 149,375
Mosquito Control Services	-	8,591	-	-	8,591
Sewer	-	-	17,475	-	17,475
Water Utility Services	-	-	-	146,295	146,295
Depreciation and Amortization	-	-	50,046	17,200	67,246
<b>Total Operating Expenses</b>	\$ 149,375	\$ 8,591	\$ 67,521	\$ 163,495	\$ 388,982
<b>Operating Income (Loss)</b>	\$ (10,696)	\$ (8,301)	\$ 55,758	\$ (9,862)	\$ 26,899
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest and Fiscal Charges	\$ -	\$ -	\$ (39,013)	\$ -	\$ (39,013)
Investment Earnings	-	-	1,173	75	1,248
Operating Grants	-	-	-	-	-
<b>Total Non-Operating Revenues (Expenses)</b>	\$ -	\$ -	\$ (37,840)	\$ 75	\$ (37,765)
<b>Income (Loss) Before Transfers</b>	\$ (10,696)	\$ (8,301)	\$ 17,918	\$ (9,787)	\$ (10,866)
Transfers In	-	-	(23,000)	(14,052)	(37,052)
Transfers Out	-	-	-	-	-
<b>CHANGE IN NET POSITION</b>	\$ (10,696)	\$ (8,301)	\$ (5,082)	\$ (23,839)	\$ (47,918)
<b>BEGINNING NET POSITION</b>	26,490	24,516	684,011	466,411	1,201,428
<b>ENDING NET POSITION</b>	\$ 15,794	\$ 16,215	\$ 678,929	\$ 442,572	\$ 1,153,510

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



**CITY OF HATTON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Garbage Fund	Mosquito Fund	Sewer Fund	Water Fund	Total Business-Type Enterprise Funds
<b>Cash Flows from Operating Activities</b>					
Cash Received from Customers	\$ 137,195	\$ 822	\$ 122,091	\$ 151,910	\$ 412,018
Cash Payments to Employees for Services	(21,286)	-	-	(39,891)	(61,177)
Cash Payments for Goods and Services	(123,591)	(8,556)	(16,270)	(106,161)	(254,578)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (7,682)</b>	<b>\$ (7,734)</b>	<b>\$ 105,821</b>	<b>\$ 5,858</b>	<b>\$ 96,263</b>
<b>Cash Flows from Noncapital Financing Activities</b>					
(Increase) Decrease in Restricted Cash and Cash Equivalents	-	-	-	-	-
Increase (Decrease) in Due to Other Funds Transfers In	-	-	-	-	-
Transfers Out	-	-	(23,000)	(14,052)	(37,052)
<b>Net Cash Used by Noncapital Financing Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (23,000)</b>	<b>\$ (14,052)</b>	<b>\$ (37,052)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Payments for Bond Issue Costs	-	-	-	-	-
Proceeds from Capital Grant	-	-	-	-	-
Proceeds from Notes and Bonds Payable	-	-	(49,124)	-	(49,124)
Principal Paid on Notes and Bonds Payable	-	-	(37,914)	-	(37,914)
Interest Paid on Notes and Bonds Payable	-	-	-	-	-
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (87,038)</b>	<b>\$ -</b>	<b>\$ (87,038)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Capital Assets	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	1,173	1,248
Investment Earnings	-	-	-	75	-
<b>Net Cash Provided by Investing Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,173</b>	<b>\$ 75</b>	<b>\$ 1,248</b>

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

CITY OF HATTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Garbage Fund	Mosquito Fund	Sewer Fund	Water Fund	Total Business-Type Enterprise Funds
Beginning Cash and Cash Equivalents	26,690	23,984	204,654	79,042	334,370
Ending Cash and Cash Equivalents	19,008	16,250	201,610	70,923	307,791
Net Decrease in Cash and Cash Equivalents	(7,682)	(7,734)	(3,044)	(8,119)	(26,579)
Net Cash Provided by Operating Activities					
Operating Income (Loss)	(10,696)	(8,301)	55,758	(9,862)	26,899
Adjustments					
Depreciation	-	-	50,046	17,200	67,246
Bond Discount Amortization	-	-	-	-	-
Interest	-	-	-	-	-
(Increase) Decrease in Assets					
Accounts Receivable	(1,484)	532	(1,188)	(1,723)	(3,863)
Increase (Decrease) in Liabilities					
Accounts Payable	4,498	35	1,205	243	5,981
Net Cash Provided (Used) by Operating Activities	(7,682)	(7,734)	105,821	5,858	96,263
Non-Cash Investing, Capital and Financing Activities	-	-	-	-	-

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

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Hatton (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. The more significant of the City's accounting policies are described below.

**Reporting Entity**

The City was incorporated under the provisions of the State of North Dakota, operating under a council - mayor form of government. The City provides public safety (law enforcement), streets, social services, cultural recreation, public improvements, planning and zoning, general and administrative services as authorized by its charter. Other services include garbage, mosquito control, sewer and water. There were no component units as determined by financial accountability or by nature and significance of relationships.

Financial accountability includes the ability of the primary government to appoint a voting majority to the organization's governing board, and is either able to impose its will on the organization or there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

**Basis of Presentation - Government-Wide and Fund Financial Statements**

The City's basic financial statements consist of government-wide financial statements (which consist of a statement of net position and a statement of activities) and fund financial statements (which provide a more detailed level of financial information).

The **government-wide financial statements** include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The effect of interfund activity has been removed from these financial statements. Individual funds are not displayed but the statements distinguish governmental activities, normally supported by taxes, grants and the City's general revenues, from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net position presents the financial position of the governmental activities of the City and its discretely presented component units, if any, at year end.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with distinct functional activity.

CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Basis of Presentation - Government-Wide and Fund Financial Statements - continued**

Program revenues include (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions that finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is which function the revenues are restricted.

Taxes and other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenue of the City.

**Fund financial statements** are designed to present financial information of the City at a more detailed level. During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are provided for governmental funds and proprietary funds.

Major individual governmental funds and enterprise funds are reported in separate columns.

The City uses funds to maintain its financial records during the year. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts.

Funds are classified into the following categories: governmental and proprietary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund – The General Fund is the general operating fund of the City and accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, public safety, health and welfare, economic development and the capital improvement costs that are not paid through other funds are paid from the General Fund.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Basis of Presentation - Government-Wide and Fund Financial Statements - continued**

Parks and Recreation Fund - The Parks and Recreation Fund is used to account for activities relating to the operation of the swimming pool, the improvement of the City's park and support of the Hatton Park District.

City Sales Tax Fund - The City Sales Tax Fund is used to account for the receipt and use of local sales tax collections including economic development projects.

Highway Fund - The Highway Fund is used to account for the receipt and use of state highway grant funds.

Equipment Replacement and Reserve Fund - The Equipment Replacement and Reserve Fund is used for the purchase and sales of governmental fund capital assets and to account for the use and care of the City's streets.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise funds and internal service funds. The City chooses to treat all its proprietary funds as major funds. The following are the City's proprietary funds:

Water Fund - The Water Fund accounts for revenues and expenses associated with providing water services to the City's residents.

Garbage Fund - The Garbage Fund accounts for revenues and expenses associated with refuse collection and with providing waste water treatment services to the City's residents.

Mosquito Fund - The Mosquito Fund accounts for revenues and expenses associated with controlling the mosquito population within the City.

Sewer Fund - The Sewer Fund accounts for revenues and expenses associated with sewage services.

**Measurement Focus**

The **government-wide financial statements** are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Measurement Focus - continued**

In the **fund financial statements**, all governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on this balance sheet. The statement of revenues, expenditures and changes in fund balance reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary funds are accounted on a flow of economic resources measurement focus on both reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how a government finances and meets the cash flow needs of its proprietary activities.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenue resulting from **exchange transactions**, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available" means expected to be received within 60 days of year end.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Basis of Accounting - continued**

Revenue resulting from **non-exchange transactions**, in which the City receives value without directly giving equal value in return, includes property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used, or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, interest and federal and state grants.

**Deferred revenue** arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, which use the modified basis of accrual, receivables that will not be collected within the 60 days have been reported as deferred revenue because they are measurable but not available.

Grants and entitlements received before the eligibility requirements are met (cash advances) are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

**Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year.

**Cash and Cash Equivalents**

Cash and Cash Equivalents include all highly liquid investments with an original maturity of less than three months.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Capital Assets**

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the City fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets, except infrastructure, are capitalized at historical cost, or estimated historical cost if historical cost is not available, and updated for additions and retirements during the year. Donated capital assets are valued at their estimated fair market value on the date received. The City's infrastructure consists of roads, bridges, and water and sewer lines. As a "Phase 3" government entity, the City has elected not to retroactively report any major general infrastructure assets. The City maintains the following capitalization thresholds:

Sites	\$ 10,000
Buildings and Additions	\$ 20,000
Infrastructure Additions	\$ 20,000
Equipment	\$ 5,000
Technology Equipment	\$ 5,000
Vehicles	\$ 5,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated except for sites, construction in progress, and deposits on undelivered equipment. Depreciation is computed using the straight-line method over the following useful lives:

Sites	Perpetual
Buildings and Additions	50 years
Infrastructure Additions	50 years
Equipment	7 years
Technology Equipment	5 years
Vehicles	5 years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.



**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one type of this item, which arises only under the full accrual of accounting, that qualifies for reporting in this category. Pension related deferred outflows of resources are reported only in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of this item that qualifies for reporting in this category, one which arises only under a modified accrual basis of accounting and one which arises only under full accrual basis of accounting. Deferred revenue from property taxes is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Pension related deferred inflows of resources are reported only in the statement of net position. These amounts are recognized as an inflow of resources in the period that the amount becomes available.

**Accrued Liabilities and Long-Term Debt**

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. Bonds and capital leases are recognized as a liability in the governmental fund financial statements when due.

**Bond Premiums, Discounts and Issuance Costs**

On the government-wide statement of net position and proprietary fund type statement of net position, bond premiums and discounts are netted against bonds payable and bond issuance costs are reported as deferred charges. On the government-wide and proprietary fund type statement of activities, bond premiums, discounts and bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

At the governmental fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as an expenditure.

CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**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".

Generally, **fund balance** represents the difference between the current assets and current liabilities. As per GASB No. 54, fund balances for governmental funds are reported in 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. The following classifications are used by the City:

Nonspendable Fund Balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance classification includes amounts where constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of a simple majority of the Council, the City's highest level of decision-making authority.

Assigned Fund Balance

The assigned fund balance classification includes amounts that are constrained by the City's *intent* to be used for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance

The unassigned fund balance classification is the residual classification for the general fund representing the fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Fund Equity - continued**

**Net position** represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net positions are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available, and committed and assigned fund balances first when both these and unassigned fund balances are available.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. These revenues are charges for services to external customers for water, sewer and solid waste. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of each fund.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the fiduciary net position of the North Dakota Public Employees Retirement Systems (NDPERS) and additions to/deductions from NDPERS's fiduciary net position have been determined on the same basis as they were reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS**

Custodial credit risk is the risk that, in event of a bank failure, the City's deposits might not be recovered. The City has two authorized depository for its deposits and investments. The City follows North Dakota state statutes which authorize the City to make deposits in 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 secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the City to invest in: a) 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, b) 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, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the State, d) Obligations of the State. As of December 31, 2016, \$423,771 of the City's bank balances of \$693,707 were exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging financial institution	\$ 423,771
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**3. PROPERTY TAXES**

Property taxes are levied July 31 of each year on property values assessed by the previous February. Taxes paid by February 15 of the following year receive a discount of 5%. Regular payment dates are March 1 and October 15. A tax lien becomes enforceable on unpaid taxes the following January.

The City records taxes receivable at net realizable value. The City considers all taxes receivable to be collectible as of December 31. The City's policy is to record the net taxes receivable as an asset, with a deferred revenue account to recognize taxes not expected to be available within 60 days.

At December 31, 2016, the aging of taxes receivable is as follows:

	Traill County
0 - 60 days	\$ 11,988
2015	2,956
2014	1,254
2013	867
2012 & Prior	-
Totals	\$ 17,065

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**4. CHANGE IN NET CAPITAL ASSETS**

**Government Funds**

	Beginning Balance	Additions	Deletions	Ending Balance
Sites	\$ 64,315	\$ 65,652	\$ -	\$ 129,967
Infrastructure Additions	280,603	-	-	280,603
Equipment	259,763	-	-	259,763
Vehicles	72,893	-	(15,000)	57,893
Less: Accumulated Depreciation	<u>(309,766)</u>	<u>(44,180)</u>	<u>15,000</u>	<u>(338,946)</u>
	<u>\$ 367,808</u>	<u>\$ 21,472</u>	<u>\$ -</u>	<u>\$ 389,280</u>

**Government Activities Depreciation Expense**

General Government	\$ 11,344
Public Safety	3,217
Highway and Public Improvement	<u>29,619</u>
	<u>\$ 44,180</u>

**Business-Type Activities**

	Beginning Balance	Additions	Deletions	Ending Balance
Sites	\$ 16,738	\$ -	\$ -	\$ 16,738
Buildings/Additions	-	-	-	-
Infrastructure Additions	2,858,077	-	-	2,858,077
Equipment	220,054	-	-	220,054
Less: Accumulated Depreciation	<u>(969,746)</u>	<u>(67,246)</u>	<u>-</u>	<u>(1,036,992)</u>
	<u>\$2,125,123</u>	<u>\$ (67,246)</u>	<u>\$ -</u>	<u>\$2,057,877</u>

**Business-Type Activities Depreciation Expense**

Water Utility	\$ 17,200
Sewer	<u>50,046</u>
	<u>\$ 67,246</u>

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**5. COMPENSATED ABSENCES**

The City implemented the provisions of GASB-16, Accounting for Compensated Absences. As per this provision, probable payments for vested vacation leave, plus associated payroll expenses, have been accrued at the end of each year. The City also provides benefits for sick leave. However, there is no provision for termination payments of accrued sick leave. As per GASB-16, no accrual of accumulated sick leave benefits has been provided.

**6. OBLIGATIONS UNDER A CAPITAL LEASE**

On June 25, 2014, the City entered into a capital lease with United Lease Finance for \$27,700 to purchase a 2014 John Deere Model 544K payloader. Future minimum lease payments of \$31,026 are due in 5 annual payments of \$6,205, after which the title will pass to the City on June 25, 2019. There are no executory costs. Total interest of \$3,326 is due on the obligation based on an imputed interest rate of 3.903%. The balance on December 31, 2016 was \$17,252.

During the year the City had the following additions and retirements:

	Beginning Balance	Additions	Retirements	Ending Balance
2014 Lease Obligation	\$ 22,576	\$ -	\$ 5,324	\$ 17,252
	<u>\$ 22,576</u>	<u>\$ -</u>	<u>\$ 5,324</u>	<u>\$ 17,252</u>
Amount Due in One Year				<u>\$ 5,532</u>
Total interest and fiscal charges paid for the year ended December 31, 2016				\$ 881
Accrued Interest, December 31, 2015				(441)
Accrued Interest, December 31, 2016				337
Interest Expense				<u>\$ 777</u>

Future obligations under the capital lease are as follows (Governmental Activities):

	Present Value of Lease	Imputed Interest	Minimum Lease Payments
2017	\$ 5,532	\$ 673	\$ 6,205
2018	5,748	457	6,205
2019	<u>5,972</u>	<u>233</u>	<u>6,205</u>
	<u>\$ 17,252</u>	<u>\$ 1,363</u>	<u>\$ 18,615</u>

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**7. BONDS AND USDA NOTE PAYABLE**

\$330,000 R-1 Water Revenue Bonds of 1988, due in annual installments of \$4,500 to \$15,000 plus interest at 3% due to the Bank of North Dakota through August 1, 2028. The balance on December 31, 2016 was \$142,501.

\$1,460,000 2012 Refunding Bond, due in annual payments ranging from \$50,000 to \$80,000 plus interest accruing at an average rate of 3.442%. The bonds were issued with a discount of \$21,900, and issue costs of \$27,477. The discount and issue costs are being amortized over the life of the bond. The bond matures on July 1, 2037. The balance on December 31, 2016 net of unamortized discount is \$1,242,042.

During the year the City had the following additions and retirements:

	Beginning Balance	Additions	Retirements	Ending Balance
\$330,000 R-1 Water	\$ 152,319	\$ -	\$ 9,818	\$ 142,501
\$1,460,000 2012 Refunding	1,310,000	-	50,000	1,260,000
<b>Totals</b>	<b>\$ 1,462,319</b>	<b>\$ -</b>	<b>\$ 59,818</b>	<b>\$ 1,402,501</b>

	Amount Due in One Year
\$330,000 R-1 Water	\$ 10,000
\$1,460,000 2012 Refunding	50,000
<b>Total</b>	<b>\$ 60,000</b>

Total interest and fiscal charges paid for the year ended December 31, 2016	\$ 42,153
Accrued Interest, December 31, 2015	(1,904)
Accrued Interest, December 31, 2016	2,118
<b>Interest Expense</b>	<b>\$ 42,367</b>

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**7. BONDS AND USDA NOTE PAYABLE - continued**

Future payments of principal and interest on the \$330,000 R-1 Water Revenue Bonds are as follows (Governmental Activities):

	Bond Principal	Bond Interest	Bond Totals
2017	\$ 10,000	\$ 4,290	\$ 14,290
2018	10,500	3,990	14,490
2019	10,500	3,675	14,175
2020	11,000	3,360	14,360
2021	11,000	3,030	14,030
2022	11,500	2,700	14,200
2023	12,000	2,355	14,355
2024	12,500	1,995	14,495
2025	12,500	1,620	14,120
2026	13,000	1,245	14,245
2027	13,500	855	14,355
2028	14,501	450	14,951
<b>Totals</b>	<b>\$ 142,501</b>	<b>\$ 29,565</b>	<b>\$ 172,066</b>

Future payments of principal and interest on the \$1,460,000, 2012 Refunding Bond are as follows (Business-Type Activities):

	Bond Principal	Bond Interest	Bond Totals
2017	\$ 50,000	\$ 36,788	\$ 86,788
2018	50,000	36,162	86,162
2019	50,000	35,538	85,538
2020	50,000	34,787	84,787
2021	50,000	34,038	84,038
2022	55,000	33,037	88,037
2023	55,000	31,938	86,938
2024	55,000	30,562	85,562
2025	55,000	29,188	84,188
2026	60,000	27,675	87,675
2027	60,000	26,025	86,025
2028	60,000	24,225	84,225
2029	65,000	22,425	87,425
2030	65,000	20,312	85,312
2031	70,000	18,200	88,200
2032	70,000	15,750	85,750
2033	75,000	13,300	88,300
2034	75,000	10,488	85,488
2035	80,000	7,675	87,675
2036	80,000	4,475	84,475
2037	30,000	1,275	31,275
<b>Totals</b>	<b>\$ 1,260,000</b>	<b>\$ 493,863</b>	<b>\$ 1,753,863</b>



**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**8. CONDUIT DEBT**

In 2015, the City issued Municipal Industrial Development Act (MIDA) Bonds to provide financial assistance to a private-sector entity, Hatton Prairie Village, for the construction of an addition to the current nursing home deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the state, nor any political subdivision thereof is obligated in any matter for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2016, there was one series of MIDA Bonds outstanding. The aggregate principal amount payable for the series could not be determined; however, their original issue amounts totaled \$2,020,000.

**9. INTERFUND OPERATING TRANSFERS**

Individual fund operating transfers for the year ended December 31, 2016 were as follows:

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Code</u>	<u>Transfers Out</u>	<u>Code</u>
General Fund	23,000	a	-	
Equipment Replacement Reserve	-		6,205	b
Debt Service	<u>20,257</u>	b	<u>-</u>	
	<u>\$ 43,257</u>		<u>\$ 6,205</u>	
 <u>Proprietary Funds</u>				
Water	\$ -		\$ 14,052	b
Sewer	<u>-</u>		<u>23,000</u>	a
	<u>\$ -</u>		<u>\$ 37,052</u>	
	<u>\$ 43,257</u>		<u>\$ 43,257</u>	

- a - Transfers of funds associated with rebalancing pooled cash accounts.
- b - Transfers of funds associated with debt retirement.

**10. PENSION PLAN**

**North Dakota Public Employees Retirement System (Main System)**

The following brief description of North Dakota Public Retirement System (NDPERS) is provided for general information only. Participants should refer to NDCC Chapter 54-52 for more complete information.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PENSION PLAN - continued**

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

**Pension Benefits**

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

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

**Death and Disability Benefits**

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

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PENSION PLAN - continued**

**Death and Disability Benefits - continued**

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

**Refunds of Member Account Balance**

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

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contributions rate are 7.12% of covered compensation.

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

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

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PENSION PLAN - continued**

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

At December 31, 2016, the City reported a liability of \$64,646 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the City's proportion was .009507 percent, which was a decrease of .000065% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016, the City recognized pension expense of \$6,011. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,875	\$ -
Changes of assumptions	-	5,760
Net difference between projected and actual earnings on pension plan investments	-	1,364
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	735
Employer contributions subsequent to the measurement date	10,570	-
	<b>\$ 12,445</b>	<b>\$ 7,859</b>

\$7,301 and \$3,269 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2017 and December 31, 2018, respectively.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PENSION PLAN - continued**

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2017	\$ (1,897)
2018	(1,897)
2019	(1,897)
2020	923
2021	(1,216)
Thereafter	-
	<b>\$ (5,984)</b>

**Actuarial Assumptions.** The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PENSION PLAN - continued**

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount Rate.** The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

**CITY OF HATTON  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PENSION PLAN - continued**

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

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's proportionate share of the net pension liability	\$ 99,131	\$ 64,646	\$ 36,431

**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

**11. COMMITMENTS AND CONTINGENCIES**

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**12. INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund receivables or payables for the year ended December 31, 2016.

**CITY OF HATTON  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

**13. RISK MANAGEMENT**

The City is exposed to various risks including, but not limited to, losses from worker's compensation, employee health insurance, public liability, and general property and casualty. The City has contracted with third party insurance carriers for specific and aggregate stop loss coverage to limit the City's exposure to losses as follows:

General Liability	\$ 2,000,000	
Personal Injury	2,000,000	
Commercial Building and Personal Property	1,149,542	\$225,000,000 Limit, \$1,000 deductible, 90% coinsurance
Fidelity	318,000	
Personal Property	583,384	\$100 deductible
Products/Completed Operations	2,000,000	aggregate limit
Business Autos	2,000,000	per occurrence, \$300,000
Ordinance of Law - Demolition	250,000	
Worker's Compensation		Based on rate schedule subject to \$250 deductible
Health Insurance		Various plans available through BCBS

There was no reduction in insurance coverage from the prior year. At no time during the years ended December 31, 2016, 2015, and 2014 did settlements exceed insurance coverage.

**14. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Formal budgetary integration is employed as a management control device during the year for the general fund. Budgetary control for funds not formally budgeted is achieved through financial management plans or as a result of established ordinances and State Statutes.

The legal level of control (the level for which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within the general fund. Any change in total to a fund or departmental appropriation within the fund requires City Council approval.

No funds had deficit fund balances at the fund reporting level at December 31, 2016.



CITY OF HATTON  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND AND PARKS AND RECREATION FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund				Parks and Recreation Fund			
	Budgeted Amounts	Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budgeted Amounts	Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Beginning Fund Balance</b>	\$ 129,451	\$ 129,451	\$ 129,451	\$ -	\$ 42,040	\$ 42,040	\$ 42,040	\$ -
<b>Resources (Inflows)</b>								
Local Sources	\$ 165,702	\$ 165,702	\$ 97,161	\$ (68,541)	\$ 11,210	\$ 11,210	\$ 3,432	\$ (7,778)
Sales Tax	-	-	-	-	-	-	44,684	44,684
State Sources	88,000	88,000	56,686	(31,314)	-	-	4,209	4,209
Federal Sources	-	-	-	-	-	-	-	-
Fees and Other Non-Tax Revenues	31,140	31,140	12,920	(18,220)	-	-	5,679	5,679
Other	2,835	2,835	1,123	(1,712)	-	-	52	52
<b>Amounts Available for Apportionment</b>	<u>\$ 417,128</u>	<u>\$ 417,128</u>	<u>\$ 297,341</u>	<u>\$ (119,787)</u>	<u>\$ 53,250</u>	<u>\$ 53,250</u>	<u>\$ 100,096</u>	<u>\$ 46,846</u>
<b>Charges to Appropriations (Outflows)</b>								
Current								
General Government	\$ 180,682	\$ 180,682	\$ 56,872	\$ 123,810	\$ -	\$ -	\$ -	\$ -
Public Safety	57,640	57,640	51,380	6,260	-	-	-	-
Health and Welfare	24,965	24,965	33,024	(8,059)	-	-	-	-
Recreation	-	-	-	-	51,176	51,176	65,479	(14,303)
Economic Development	9,500	9,500	1,645	7,855	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Buildings and Equipment	-	-	-	-	-	-	-	-
<b>Total Charges to Apportionment</b>	<u>\$ 272,787</u>	<u>\$ 272,787</u>	<u>\$ 142,921</u>	<u>\$ 129,866</u>	<u>\$ 51,176</u>	<u>\$ 51,176</u>	<u>\$ 65,479</u>	<u>\$ (14,303)</u>
<b>Other Financing Sources (Uses)</b>								
Transfers from Other Funds	\$ -	\$ -	\$ 23,000	23,000	\$ -	\$ -	\$ -	\$ -
Transfers to Other Funds	-	-	-	-	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ 23,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Ending Fund Balance</b>	<u>\$ 144,341</u>	<u>\$ 144,341</u>	<u>\$ 177,420</u>	<u>\$ 33,079</u>	<u>\$ 2,074</u>	<u>\$ 2,074</u>	<u>\$ 34,617</u>	<u>\$ 32,543</u>

The accompanying notes are an integral part of this schedule.

CITY OF HATTON  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**CITY SALES TAX FUND AND HIGHWAY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	City Sales Tax Fund					Highway Fund				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Original Budget	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)	
	Original Budget	Final Budget				Original Budget	Final Budget			
<b>Beginning Fund Balance</b>	\$ 92,811	\$ 92,811	\$ 92,811	\$ -	\$ 71,160	\$ 71,160	\$ 71,160	\$ -		
<b>Resources (Inflows)</b>										
Local Sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Sales Tax	-	-	46,818	46,818	-	-	14,581	14,581	-	
State Sources	-	-	-	-	-	-	-	-	-	
Federal Sources	-	-	-	-	-	-	-	-	-	
Fees and Other Non-Tax Revenues	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	
<b>Amounts Available for Apportionment</b>	\$ 92,811	\$ 92,811	\$ 139,629	\$ 46,818	\$ 71,160	\$ 71,160	\$ 85,741	\$ 14,581		
<b>Charges to Appropriations (Outflows)</b>										
Current										
General Government	\$ 3,645	\$ 3,645	\$ 40	\$ 3,605	\$ -	\$ -	\$ -	\$ -	\$ -	
Public Safety	-	-	-	-	-	-	-	-	-	
Health and Welfare	-	-	-	-	-	-	-	-	-	
Highway and Public Improvements	-	-	-	-	37,300	37,300	47,612	(10,312)	-	
Economic Development	25,500	25,500	23,459	2,041	-	-	-	-	-	
Capital Outlay	-	-	65,652	(65,652)	-	-	-	-	-	
Buildings and Equipment	-	-	89,151	(89,151)	-	-	-	-	-	
<b>Total Charges to Appropriation</b>	\$ 29,145	\$ 29,145	\$ 89,151	\$ (60,006)	\$ 37,300	\$ 37,300	\$ 47,612	\$ (10,312)		
<b>Other Financing Sources (Uses)</b>										
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Transfers to Other Funds	-	-	-	-	-	-	-	-	-	
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-	2,000	2,000	-	
<b>Total Other Financing Sources (Uses)</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000	\$ 2,000	\$ -	
<b>Ending Fund Balance</b>	\$ 63,666	\$ 63,666	\$ 50,478	\$ (13,188)	\$ 33,860	\$ 33,860	\$ 40,129	\$ 6,269		

The accompanying notes are an integral part of this schedule.

CITY OF HATTON  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 EQUIPMENT REPLACEMENT AND RESERVE FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Equipment Replacement and Reserve Fund		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Budgeted Amounts	Budgeted Amounts		
Beginning Fund Balance	\$ 64,861	\$ 64,861	\$ 64,861	\$ -
<b>Resources (Inflows)</b>				
Local Sources	\$ -	\$ -	\$ -	\$ -
Sales Tax	-	-	-	-
State Sources	-	-	29,649	29,649
Federal Sources	-	-	-	-
Fees and Other Non-Tax Revenues	-	-	16,326	16,326
Other	-	-	120	120
<b>Amounts Available for Apportionment</b>	<u>\$ 64,861</u>	<u>\$ 64,861</u>	<u>\$ 110,956</u>	<u>\$ 46,095</u>
<b>Charges to Appropriations (Outflows)</b>				
Current				
General Government	\$ -	\$ -	\$ -	\$ -
Public Safety	-	-	-	-
Health and Welfare	-	-	-	-
Highway and Public Improvements	10,175	10,175	63,616	(53,441)
Economic Development	-	-	-	-
Capital Outlay	-	-	-	-
Buildings and Equipment	-	-	-	-
<b>Total Charges to Appropriation</b>	<u>\$ 10,175</u>	<u>\$ 10,175</u>	<u>\$ 63,616</u>	<u>\$ (53,441)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -
Transfers to Other Funds	-	-	(6,205)	(6,205)
Proceeds from Issuance of Note Payable	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,205)</u>	<u>\$ (6,205)</u>
<b>Ending Fund Balance</b>	<u>\$ 54,686</u>	<u>\$ 54,686</u>	<u>\$ 41,135</u>	<u>\$ (13,551)</u>

The accompanying notes are an integral part of this schedule.

**CITY OF HATTON  
 SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
 LAST 10 FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.009507%	0.009572%
Employer's Proportionate Share of the Net Pension Liability (Asset)	64,646	60,756
Employer's Covered-Employee Payroll	84,700	80,632
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	76.32%	75.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.15%	77.70%
Plan Measurement Date	June 30, 2015	June 30, 2014

Note: GASB Statement No. 68 requires ten years of information to be represented in this table. However, until a full ten year trend is compiled, the City will present information for those years for which information is available.

**CITY OF HATTON  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
 LAST 10 FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
Statutorily Required Contribution	\$ 6,031	\$ 5,741
Contributions in Relation to the Statutorily Required Contribution	\$ 6,433	\$ 5,741
Contribution Deficiency (Excess)	\$ (402)	\$ -
Employer's Covered-Employee Payroll	\$ 84,700	\$ 80,632
Contributions as a Percentage of Covered- Employee Payroll	7.12%	7.12%
Plan Measurement Date	June 30, 2015	June 30, 2014

Note: GASB Statement No. 68 requires ten years of information to be represented in this table. However, until a full ten year trend is compiled, the City will present information for those years for which information is available.

CITY OF HATTON  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

1. BUDGETS

The City is required by North Dakota state statutes to adopt its preliminary annual budget for the General Fund, each special revenue fund, and each debt service fund by September 10. The final budget and tax levy must be approved by October 7. The final budget must be submitted to the county auditor by October 10. The budget is presented on the modified accrual basis of accounting, which is consistent with GAAP. All budget appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the major funds. Budgetary control for funds not formally budgeted is achieved through financial management plans or as a result of established ordinances and State Statutes.

The legal level of control (the level for which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within the major funds. Any change in total to a fund or departmental appropriation within the major funds requires the City Council approval.

During the year ended December 31, 2016, the City's expenditures exceeded appropriations in the **general fund** as follows:

Health and Welfare	\$ 8,059	Caused by under budgeted pension costs
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During the year ended December 31, 2016, the City's expenditures exceeded appropriations in the **parks and recreation fund** as follows:

Recreation	\$ 14,303	Caused by unbudgeted allocation to Hatton Community Center and under budgeted pool repairs
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During the year ended December 31, 2016, the City's expenditures exceeded appropriations in the **city sales tax fund** as follows:

Buildings and Equipment	\$ 65,652	Unbudgeted economic development purchases
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During the year ended December 31, 2016, the City's expenditures exceeded appropriations in the **highway fund** as follows:

Highway and Public Improvements	\$ 10,312	Caused by under budgeted street repairs
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**CITY OF HATTON**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. BUDGETS - continued**

During the year ended December 31, 2016, the City's expenditures exceeded appropriations in the **equipment replacement and reserve fund** as follows:

Highway and Public Improvements	\$ 53,441	Caused by unbudgeted payroll and benefits costs and street lighting utilities
Transfers	\$ 6,205	Caused by unbudgeted transfers

**2. CHANGES OF ASSUMPTIONS - PENSIONS**

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

To the Governing Board  
City of Hatton  
Hatton, 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, each major fund, and the aggregate remaining fund information of the **City of Hatton** as of and for the year ended **December 31, 2016**, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 6, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the **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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **City of Hatton's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **City of Hatton'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 the 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 questioned costs as 2016-001 that we considered to be significant deficiencies.

### **Compliance and Other Matters**

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



### City of Hatton's Response to Findings

The City of Hatton's response to the findings in our audit is described in the accompanying schedule of findings and questioned costs. The City of Hatton'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**OVERMOE & NELSON, LTD**  
Certified Public Accountants  
Grand Forks, North Dakota

February 6, 2017

CITY OF HATTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Financial Statement Findings**

**Reference 2016-001 (A Significant Deficiency)**

Criteria

An adequate internal control maintains proper segregation of duties.

Condition

The **City of Hatton** has a total office staff of one employee. It is therefore impossible to maintain a complete segregation of duties.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The city auditor performed duties that included executing and recording transactions.

Cause

It would not be reasonable nor cost effective to hire additional staff to maintain an internal control with complete segregation of duties.

Recommendation

Due to the size of the staff, it is not feasible to obtain proper segregation of duties and no recommendation will be made.

Management's Response

No response is considered necessary.