

AUDIT REPORT

CITY OF HAZEN
Hazen, North Dakota

For the Year Ended December 31, 2016

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAZEN
Hazen, North Dakota

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CITY OF HAZEN
Hazen, North Dakota

CITY OFFICIALS

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

Rath & Mehrer, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hazen
Hazen, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hazen, Hazen, North Dakota, as of and for the year ended December 31, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazen, Hazen, North Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2017 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

February 10, 2017

CITY OF HAZEN

Management's Discussion and Analysis

December 31, 2016

The Management's Discussion and Analysis (MD&A) of the City of Hazen's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2016. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city increased \$45,800 as a result of the current year's operations. Net position of the governmental activities increased \$139,787 and net position of the business-type activities decreased \$93,987.
- * Governmental net position totaled \$7,007,639 and business-type net position totaled \$2,793,083.
- * Total revenues from all sources were \$3,003,650 for governmental activities and \$990,457 for business-type activities.
- * Total expenses were \$2,863,864 for governmental activities and \$1,084,444 for business-type activities.
- * The city's general fund had \$1,574,293 in total revenues and \$1,852,810 in total expenditures. There was a total of \$100,555 received from other financing sources. Overall, the general fund balance decreased by \$177,961 for the year ended December 31, 2016.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- * Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- * Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2016?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, culture and recreation, urban and economic development, conservation of natural resources and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, city sales tax fund, transportation fund, Hazen street improvement project 2014-1 fund and Hazen street improvement project 2016-1 fund are considered "major governmental funds". The city's water fund, sewer fund and garbage fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2016. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position increased by \$45,800 for the year ended December 31, 2016. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2016, the city's net position of \$9,800,722 is segregated into three separate categories. Net investment in capital assets represents 50% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 25% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 25% of the city's net position and is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	3,599,548	1,418,310
Capital Assets (net of accumulated depreciation)	7,833,563	1,967,773
Total Assets	<u>11,433,111</u>	<u>3,386,083</u>
<u>Liabilities</u>		
Current Liabilities	330,149	69,000
Long-Term Liabilities	4,095,324	524,000
Total Liabilities	<u>4,425,473</u>	<u>593,000</u>
<u>Net Position</u>		
Net Investment in Capital Assets	3,529,933	1,374,773
Restricted	2,203,625	287,478
Unrestricted	1,274,081	1,130,832
Total Net Position	<u>7,007,639</u> =====	<u>2,793,083</u> =====

Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	4,321,249	1,438,097
Capital Assets (net of accumulated depreciation)	6,130,407	2,105,973
Total Assets	10,451,656	3,544,070
<u>Liabilities</u>		
Current Liabilities	284,526	64,000
Long-Term Liabilities	3,292,278	593,000
Total Liabilities	3,576,804	657,000
<u>Net Position</u>		
Net Investment in Capital Assets	2,669,278	1,448,973
Restricted	2,212,595	257,071
Unrestricted	1,985,979	1,181,025
Total Net Position	6,867,852	2,887,070

Table II shows the changes in net position for the fiscal year ended December 31, 2016. A comparative analysis of city-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	127,673	985,318
Operating Grants and Contributions	885,814	
<u>General Revenues:</u>		
Property Taxes	448,480	
Other Taxes	1,023,683	
Intergovernmental - Unrestricted	245,717	
Interest Earnings and Other Revenue	272,282	5,139
Total Revenues	3,003,650	990,457
<u>Expenses</u>		
General Government	408,551	
Public Safety	543,521	
Streets and Public Works	1,039,799	
Culture and Recreation	279,924	
Urban and Economic Development	244,978	
Conservation of Natural Resources	35,985	
Other	213,241	
Discount on Bonds Issued	10,800	
Interest on Long-Term Debt	87,065	
Water		661,890
Sewer		172,111
Garbage		250,442
Total Expenses	2,863,864	1,084,444
Net Change in Position	139,787	(93,987)

Property taxes constituted 11%, other taxes 26%, unrestricted intergovernmental 6%, operating grants and contributions 22%, and charges for services made up 28% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 10%, public safety 14%, streets and public works 26%, and enterprise 27% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	160,039	993,269
Operating Grants and Contributions	1,836,106	
<u>General Revenues:</u>		
Property Taxes	461,740	
Other Taxes	1,135,782	
Intergovernmental - Unrestricted	220,068	
Interest Earnings and Other Revenue	262,565	5,542
Gain on Sale of Capital Assets	108,450	
Total Revenues	<u>4,184,750</u>	<u>998,811</u>
Expenses		
General Government	493,909	
Public Safety	478,646	
Streets and Public Works	1,897,632	
Culture and Recreation	127,866	
Urban and Economic Development	471,281	
Conservation of Natural Resources	48,788	
Other	269,227	
Interest on Long-Term Debt	90,271	
Water		620,615
Sewer		132,043
Garbage		236,187
Total Expenses	<u>3,877,620</u>	<u>988,845</u>
Net Change in Position Before Transfers	<u>307,130</u>	<u>9,966</u>
Transfers	<u>(45,000)</u>	<u>45,000</u>
Net Change in Position	<u>262,130</u>	<u>54,966</u>

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III
Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended <u>Dec. 31, 2016</u>	Net Cost Year Ended <u>Dec. 31, 2016</u>
General Government	408,551	357,949
Public Safety	543,521	541,021
Streets and Public Works	1,039,799	867,640
Culture and Recreation	279,924	276,308
Urban and Economic Development	244,978	244,978
Conservation of Natural Resources	35,985	35,985
Other	213,241	(221,530)
Discount on Bonds Issued	10,800	10,800
Interest on Long-Term Debt	87,065	(262,774)
Total Expenses	<u>2,863,864</u> =====	<u>1,850,376</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$3,003,650 and expenditures of \$4,843,234 for the year ended December 31, 2016. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$656,169 and total unassigned fund balances for all the city's governmental funds was \$88,399.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2016, the city did not amend the general fund budget.

Actual revenue for the year ended December 31, 2016 was \$1,986 more than budgeted. Actual expenditures for the year ended December 31, 2016 were under budget by \$39,306.

CAPITAL ASSETS

As of December 31, 2016, the city had \$9,801,336 invested in capital assets. The following table show the balances, for governmental and business-type activities, as of December 31, 2016 and 2015.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Land	562,410	80,000
Buildings and Infrastructure	6,386,125	1,394,407
Machinery and Vehicles	885,028	493,366
Total (net of depreciation)	<u>7,833,563</u> =====	<u>1,967,773</u> =====

This total represents an increase of \$1,564,956 in capital assets from January 1, 2016. The increase in buildings and infrastructure is due to the completion of street project 2016-1 and the construction of a transit storage building. Machinery and vehicles increased during the year as the city purchased a Chevy Tahoe for the police department and a John Deere mower, Bobcat skid-steer loader and a 2008 Chevy pickup for the streets and public works department. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Land	562,410	80,000
Buildings and Infrastructure	4,644,299	1,477,793
Machinery and Vehicles	923,698	548,180
Total (net of depreciation)	<u>6,130,407</u> =====	<u>2,105,973</u> =====

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$5,018,473 in outstanding debt of which \$399,149 was due within one year.

During fiscal year 2016, the city issued two new long-term debt obligations:

Special Assessment Bonds Payable, in the amount of \$720,000. The city issued the Refunding Improvement Bonds of 2016 to fund a street project. These bonds will have a final payment on May 1, 2031.

Special Assessment Bonds Payable, in the amount of \$408,683. The city issued Definitive Improvement Warrant, Series 2016A, available funding of \$710,665, to fund a street project. A final repayment schedule is not available as the city has not received all drawdowns as part of this project.

For a detailed breakdown of the long-term debt, readers are referred to Note 6 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Monte Erhardt, City Auditor, Hazen, ND.

CITY OF HAZEN
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	3,596,800.57	1,356,649.91	4,953,450.48
Accounts Receivable	2,747.84	61,659.97	64,407.81
Capital Assets (net of accumulated depreciation):			
Land	562,410.00	80,000.00	642,410.00
Buildings and Infrastructure	6,386,125.00	1,394,407.00	7,780,532.00
Machinery and Vehicles	885,028.00	493,366.00	1,378,394.00
Total Capital Assets	7,833,563.00	1,967,773.00	9,801,336.00
Total Assets	11,433,111.41	3,386,082.88	14,819,194.29
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	330,148.53		330,148.53
Revenue Bonds Payable		69,000.00	69,000.00
Due After One Year:			
Special Assessment Bonds Payable	3,973,481.11		3,973,481.11
Revenue Bonds Payable		524,000.00	524,000.00
Compensated Absences Payable	121,843.00		121,843.00
Total Liabilities	4,425,472.64	593,000.00	5,018,472.64
NET POSITION:			
Net Investment in Capital Assets	3,529,933.36	1,374,773.00	4,904,706.36
Restricted for:			
Special Purposes	1,113,309.72		1,113,309.72
Debt Service	1,090,314.93	10,000.00	1,100,314.93
Water Meters		150,327.57	150,327.57
Sanitary Services		127,150.75	127,150.75
Unrestricted	1,274,080.76	1,130,831.56	2,404,912.32
Total Net Position	7,007,638.77	2,793,082.88	9,800,721.65

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, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Primary Government			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
<u>Primary Government:</u>						
<u>Governmental Activities:</u>						
General Government	408,550.88	49,826.16	776.00	(357,948.72)		(357,948.72)
Public Safety	543,521.21	2,500.00		(541,021.21)		(541,021.21)
Streets and Public Works	1,039,798.88	37,143.02	135,015.93	(867,639.93)		(867,639.93)
Culture and Recreation	279,924.29		3,616.50	(276,307.79)		(276,307.79)
Urban and Economic Development	244,977.69			(244,977.69)		(244,977.69)
Conservation of Natural Resources	35,984.68			(35,984.68)		(35,984.68)
Other	213,241.22	38,204.31	396,567.00	221,530.09		221,530.09
Discount on Bonds Issued	10,800.00			(10,800.00)		(10,800.00)
Interest on Long-Term Debt	87,064.66	349,838.68		262,774.02		262,774.02
Total Governmental Activities	2,863,863.51	127,673.49	885,814.11	(1,850,375.91)		(1,850,375.91)
<u>Business-Type Activities:</u>						
Water	661,890.42	586,179.58			(75,710.84)	(75,710.84)
Sewer	172,111.03	164,023.74			(8,087.29)	(8,087.29)
Garbage	250,442.05	235,114.60			(15,327.45)	(15,327.45)
Total Business-Type Activities	1,084,443.50	985,317.92			(99,125.58)	(99,125.58)
Total Primary Government	3,948,307.01	1,112,991.41	885,814.11	(1,850,375.91)	(99,125.58)	(1,949,501.49)

General Revenues:

Taxes:

Property taxes; levied for general purposes	325,809.12	325,809.12
Property taxes; levied for special purposes	122,670.88	122,670.88
Cigarette taxes	7,297.20	7,297.20
Coal severance taxes	481,007.57	481,007.57
Coal conversion taxes	229,364.56	229,364.56
City sales taxes	269,306.83	269,306.83
Restaurant and lodging taxes	30,805.35	30,805.35
Occupancy taxes	5,901.86	5,901.86
Intergovernmental revenue not restricted to specific programs	245,716.97	245,716.97
Earnings on investments and other revenue	272,282.41	5,138.87

Total General Revenues 1,990,162.75 5,138.87 1,995,301.62

Change in Net Position 139,786.84 (93,986.71) 45,800.13

Net Position - January 1 6,867,851.93 2,887,069.59 9,754,921.52

Net Position - December 31 7,007,638.77 2,793,082.88 9,800,721.65

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, 2016

	Major Funds					Total Governmental Funds
	General	City Sales Tax	Transportation	Hazen Street Improvement Project 2014-1	Hazen Street Improvement Project 2016-1	
ASSETS:						
Cash, Cash Equivalents and Investments	809,007.09	829,275.85	78,682.00	611,998.85		3,596,800.57
Accounts Receivable	2,747.84					2,747.84
Interfund Receivable	567,770.53					567,770.53
Total Assets	1,379,525.46	829,275.85	78,682.00	611,998.85	-0-	4,167,318.94
LIABILITIES AND FUNDS BALANCES						
Liabilities						
Interfund Payable			20,716.21		537,825.64	567,770.53
Fund Balances:						
Restricted for:						
Streets and Public Works	115,557.06					60,431.07
Culture and Recreation	78,902.82					57,155.46
Urban and Economic Development	79,503.33	829,275.85				930,215.42
Emergency Services	339,802.16					9,627.39
Cemetery						55,880.38
Debt Service				611,998.85		478,316.08
Assigned to:						
Public Safety						115,557.06
Other Purposes						147,217.91
Water and Sewer 93-1						79,503.33
Building and Equipment			78,682.00			314,416.55
Street Repairs						122,755.19
Technology	69,280.00					69,280.00
Bike Path	285.77					285.77
Forestry	40,025.00					40,025.00
Unassigned	656,169.32		(20,716.21)		(537,825.64)	88,398.79
Total Fund Balances	1,379,525.46	829,275.85	57,965.79	611,998.85	(537,825.64)	3,599,548.41
Total Liabilities and Fund Balances	1,379,525.46	829,275.85	78,682.00	611,998.85	-0-	4,167,318.94

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

CITY OF HAZEN
Hazen, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds		3,599,548.41
<p>Total net position reported for government activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	11,138,116.00	
Less Accumulated Depreciation	(3,304,553.00)	
Net Capital Assets	7,833,563.00	7,833,563.00
<p>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, 2016 are:</p>		
Special Assessments Bonds Payable	(4,303,629.64)	
Compensated Absences Payable	(121,843.00)	
Total Long-Term Liabilities	(4,425,472.64)	(4,425,472.64)
Total Net Position of Governmental Activities		7,007,638.77

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, 2016

	Major Funds					Total Governmental Funds
	General	City Sales Tax	Transportation Project 2014-1	Hazen Street Improvement Project 2016-1	Hazen Street Improvement Project 2016-1	
Revenues:						
Taxes	328,086.55	134,501.23	23,896.21	155,910.12	461,938.61	948,422.60
Special Assessments						155,910.12
Licenses, Permits and Fees	49,826.16					49,826.16
Intergovernmental	950,197.18		398,960.14			1,499,461.73
Charges for Services	37,143.02		38,204.31			75,347.33
Fines and Forfeits	2,500.00					2,500.00
Miscellaneous	206,540.41	448.12	13,392.21		51,801.67	272,182.41
Total Revenues	1,574,293.32	134,949.35	474,452.87	155,910.12	664,044.69	3,003,650.35
Expenditures:						
Current:						
General Government	400,221.88					400,221.88
Public Safety	483,548.21					483,548.21
Streets and Public Works	605,679.81			12,878.00	117,036.07	735,593.88
Culture and Recreation	233,021.47				45,169.82	278,191.29
Urban and Economic Development	57,461.00				187,516.69	244,977.69
Conservation of Natural Resources	35,984.68					35,984.68
Other			147,467.17		33,740.05	181,207.22
Capital Outlay	36,893.00		364,260.00		66,278.00	2,110,262.00
Debt Service:						
Principal Retirement				185,000.00		286,182.70
Interest and Service Charges				53,731.55		33,333.11
Total Expenditures	1,852,810.05		511,727.17	238,731.55	1,655,709.00	4,843,234.21
Excess (Deficiency) of Revenues Over Expenditures	(278,516.73)	134,949.35	(37,274.30)	(82,821.43)	(1,655,709.00)	(1,839,583.86)

<u>Other Financing Sources (Uses):</u>					
Transfers In	150,555.31	5,000.00	6,000.00	161,555.31	
Transfers Out	(50,000.00)	(5,000.00)	(106,555.31)	(161,555.31)	
Special Assessment Bonds Issued				1,128,683.36	
Discount on Bonds Issued				(10,800.00)	
Total Other Financing Sources (Uses)	100,555.31	1,117,883.36	(100,555.31)	1,117,883.36	
Net Change in Fund Balances	(177,961.42)	134,949.35	(37,274.30)	(82,821.43)	(537,825.64)
Fund Balance - January 1	1,557,486.88	694,326.50	95,240.09	694,820.28	1,279,375.16
Fund Balance - December 31	1,379,525.46	829,275.85	57,965.79	611,998.85	(537,825.64)
					1,258,608.10
					3,599,548.41

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, 2016

Net Change in Fund Balances - Total Governmental Funds (721,700.50)

The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	2,110,262.00	
Current Year Depreciation Expense	(395,018.00)	1,715,244.00

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

Debt Proceeds	(1,128,683.36)	
Repayment of Debt	286,182.70	(842,500.66)

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

Net Decrease in Compensated Absences		832.00
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In the statement of activities, only the loss on the trade-in of capital assets is reported, whereas in the governmental funds, the result of the trade-in has no effect. Thus, the net effect of transactions involving capital assets (i.e., trade-ins) is to increase net position.

(12,088.00)

Change in Net Position of Governmental Activities		139,786.84

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Fund
December 31, 2016

	Major Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	618,708.10	315,667.44	422,274.37	1,356,649.91
Accounts Receivable	32,042.28	11,591.56	18,026.13	61,659.97
Total Current Assets	650,750.38	327,259.00	440,300.50	1,418,309.88
Noncurrent Assets:				
Capital Assets (net of accumulated depr):				
Land		70,000.00	10,000.00	80,000.00
Buildings and Infrastructure	1,029,341.00	365,066.00		1,394,407.00
Machinery and Equipment	158,745.00	149,768.00	184,853.00	493,366.00
Total Noncurrent Assets	1,188,086.00	584,834.00	194,853.00	1,967,773.00
Total Assets	1,838,836.38	912,093.00	635,153.50	3,386,082.88
LIABILITIES				
Current Liabilities:				
Revenue Bonds Payable	55,000.00	14,000.00		69,000.00
Noncurrent Liabilities:				
Revenue Bonds Payable	405,000.00	119,000.00		524,000.00
Total Liabilities	460,000.00	133,000.00		593,000.00
NET POSITION				
Net Investment in Capital Assets	728,086.00	451,834.00	194,853.00	1,374,773.00
Restricted for:				
Debt Service		10,000.00		10,000.00
Water Meters	150,327.57			150,327.57
Sanitary Services		127,150.75		127,150.75
Unrestricted	500,422.81	190,108.25	440,300.50	1,130,831.56
Total Net Position	1,378,836.38	779,093.00	635,153.50	2,793,082.88

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Fund

For the Year Ended December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Operating Revenues:</u>				
<u>Charges for Sales and Services:</u>				
Water Collections	564,414.03			564,414.03
Sewer Collections		148,628.64		148,628.64
Garbage Collections			235,114.60	235,114.60
Other Collections	21,765.55	15,395.10		37,160.65
Total Operating Revenues	586,179.58	164,023.74	235,114.60	985,317.92
<u>Operating Expenses:</u>				
Salaries and Benefits	114,204.29	76,198.99	112,154.10	302,557.38
Workers Comp.	870.42	580.28	3,395.89	4,846.59
Health Insurance	32,504.68	21,624.20	38,790.59	92,919.47
Liability Insurance	246.00	227.00	2,968.00	3,441.00
Utilities	6,139.32	6,208.51		12,347.83
Chemicals	63.11	9,124.02		9,187.13
Equipment and Repairs	704.05	468.36		1,172.41
Gas and Oil	2,127.71	254.05	7,426.63	9,808.39
Office Supplies	226.18	140.76		366.94
Water Costs	362,342.36			362,342.36
Tipping Fees			53,700.71	53,700.71
Garbage Containers			1,168.00	1,168.00
Publishing, Printing and Postage	1,898.45	1,810.15	2,015.60	5,724.20
Dues and Memberships	394.00	261.00		655.00
Telephone	1,205.88			1,205.88
Operations, Repairs and Maintenance	11,554.94	20,579.39	7,903.29	40,037.62
Excavation	11,251.70			11,251.70
Weed Spray		1,800.00		1,800.00
Samples and Testing	1,673.33			1,673.33
Drug and Alcohol Testing	205.00		120.00	325.00
Truck Repairs	616.81	243.69	1,721.24	2,581.74
Computer Expense	2,803.19	1,868.79		4,671.98
Miscellaneous	700.00	705.84	503.00	1,908.84
Depreciation	94,984.00	25,641.00	18,575.00	139,200.00
Total Operating Expenses	646,715.42	167,736.03	250,442.05	1,064,893.50
Operating (Loss)	(60,535.84)	(3,712.29)	(15,327.45)	(79,575.58)

(continued)

CITY OF HAZEN
Hazen, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Fund

For the Year Ended December 31, 2016
(continued)

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	39.80			39.80
Other Revenues	3,973.56		1,125.51	5,099.07
Debt Service - Interest and Service Charges	(15,175.00)	(4,375.00)		(19,550.00)
Total Non-Operating Revenues (Expenses)	(11,161.64)	(4,375.00)	1,125.51	(14,411.13)
Income (Loss) Before Transfers	(71,697.48)	(8,087.29)	(14,201.94)	(93,986.71)
Transfers In	8,000.00	5,000.00	20,000.00	33,000.00
Transfers Out	(8,000.00)	(5,000.00)	(20,000.00)	(33,000.00)
Change in Net Position	(71,697.48)	(8,087.29)	(14,201.94)	(93,986.71)
Net Position - January 1	1,450,533.86	787,180.29	649,355.44	2,887,069.59
Net Position - December 31	1,378,836.38	779,093.00	635,153.50	2,793,082.88

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, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Cash flows from operating activities:</u>				
Receipts from customers	591,525.07	165,411.01	236,476.09	993,412.17
Payments to suppliers	(404,152.03)	(43,691.56)	(77,526.47)	(525,370.06)
Payments to employees	(114,204.29)	(76,198.99)	(112,154.10)	(302,557.38)
Payments on behalf of employees	(33,375.10)	(22,204.48)	(42,186.48)	(97,766.06)
<hr/>				
Net cash provided (used) by operating activities	39,793.65	23,315.98	4,609.04	67,718.67
<hr/>				
<u>Cash flows from noncapital financing activities:</u>				
Other receipts	3,973.56		1,125.51	5,099.07
Transfers in	8,000.00	5,000.00	20,000.00	33,000.00
Transfers out	(8,000.00)	(5,000.00)	(20,000.00)	(33,000.00)
<hr/>				
Net cash provided (used) by noncapital financing activities	3,973.56		1,125.51	5,099.07
<hr/>				
<u>Cash flows from capital and related financing activities:</u>				
Purchase of fixed assets	(1,000.00)			(1,000.00)
Principal payments on revenue bonds	(50,000.00)	(14,000.00)		(64,000.00)
Interest payments and service charges	(15,175.00)	(4,375.00)		(19,550.00)
<hr/>				
Net cash provided (used) by capital and related financing activities	(66,175.00)	(18,375.00)		(84,550.00)
<hr/>				
<u>Cash flows from investing activities:</u>				
Interest income	39.80			39.80
<hr/>				
Net increase in cash and cash equivalents	(22,367.99)	4,940.98	5,734.55	(11,692.46)
<hr/>				
Cash and cash equivalents, January 1	641,076.09	310,726.46	416,539.82	1,368,342.37
<hr/>				
Cash and cash equivalents, December 31	618,708.10	315,667.44	422,274.37	1,356,649.91
<hr style="border-top: 1px dashed black;"/>				

(continued)

CITY OF HAZEN
Hazen, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016
(continued)

	Major Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund	
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating (loss)	(60,535.84)	(3,712.29)	(15,327.45)	(79,575.58)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	94,984.00	25,641.00	18,575.00	139,200.00
Net decrease in accounts receivable	5,345.49	1,387.27	1,361.49	8,094.25
Net cash provided (used) by operating activities	39,793.65	23,315.98	4,609.04	67,718.67

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

CITY OF HAZEN
Hazen, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Agency Funds
December 31, 2016

	Agency Funds
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	8,268.77
	=====
<u>Liabilities:</u>	
Due to Other Governments	8,268.77
	=====

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

CITY OF HAZEN
Hazen, North Dakota

Notes to the Financial Statements
December 31, 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

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

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

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

Hazen Street Improvement Project 2014-1. This fund accounts for the proceeds from the Refunding Improvement Bonds of 2014 used to finance a street improvement project.

Hazen Street Improvement Project 2016-1. This fund accounts for the proceeds from the Refunding Improvement Bonds of 2016 and the Definitive Improvement Warrant, Series 2016A used to finance a street improvement project.

The city reports the following major enterprise funds:

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

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

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

The city reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

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

F. Compensated Absences

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

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

G. Long-Term Obligations

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

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

H. Fund Equity

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

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

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

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

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

I. Interfund Transactions

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

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

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

J. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2016 the city's carrying amount of deposits was \$4,961,719 and the bank balance was \$5,000,888. Of the bank balance, \$455,014 was covered by Federal Depository Insurance. The remaining balance of \$4,545,874 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, 2016 the city held certificates of deposit in the amount of \$646,768, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 ACCOUNTS RECEIVABLE

Accounts receivable consist of street light fees and utility billings due at December 31, 2016.

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	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	6,579,210	2,007,091		8,586,301
Machinery and Vehicles	1,929,926	116,821	57,342	1,989,405
Total	8,509,136	2,123,912	57,342	10,575,706
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,934,911	265,265		2,200,176
Machinery and Vehicles	1,006,228	129,753	31,604	1,104,377
Total	2,941,139	395,018	31,604	3,304,553
Total capital assets being depreciated, net	5,567,997	1,728,894	25,738	7,271,153
Governmental Activities Capital Assets, Net	6,130,407	1,728,894	25,738	7,833,563
<hr/>				
	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	80,000			80,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,475,453			3,475,453
Machinery and Vehicles	878,586	1,000		879,586
Total	4,354,039	1,000		4,355,039
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,997,660	83,386		2,081,046
Machinery and Vehicles	330,406	55,814		386,220
Total	2,328,066	139,200		2,467,266
Total capital assets being depreciated, net	2,025,973	(138,200)		1,887,773
Business-type Activities Capital Assets, Net	2,105,973	(138,200)	-0-	1,967,773

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

<u>Governmental Activities:</u>	
General Government	9,161
Public Safety	59,973
Streets and Public Works	292,117
Culture and Recreation	1,733
Other	32,034
Total	<u>395,018</u> =====
<u>Business-type Activities:</u>	
Water	94,984
Sewer	25,641
Garbage	18,575
Total	<u>139,200</u> =====

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Special Assmt.					
Bonds	3,461,129	1,128,683	286,182	4,303,630	330,149
Comp. Absences *	122,675		832	121,843	
Total	<u>3,583,804</u>	<u>1,128,683</u>	<u>287,014</u>	<u>4,425,473</u>	<u>330,149</u>
	=====	=====	=====	=====	=====

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

Business-type Activities (Proprietary Funds):

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Revenue Bonds	657,000	-0-	64,000	593,000	69,000
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2016 consists of the following:

Governmental Activities:

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the construction and/or improvement of streets, flood protection and water and sewer lines. Special assessment bonds outstanding at December 31, 2016 are as follows:

\$246,919 Refunding Improvement Bonds of 2009; due in annual installments of \$15,000 to \$25,000 through September 1, 2019; interest is at .50%.	65,000.00
\$530,000 Refunding Improvement Bonds of 2010; due in annual installments of \$30,000 to \$40,000 through May 1, 2025; interest is from 2.2% to 3.75%.	320,000.00
\$70,000 Improvement Warrants of 2011; due in annual installments of \$5,000 to \$10,000 through May 1, 2021; interest is at 2.75%.	45,000.00
\$178,494 Improvement Warrants of 2011; due in annual installments of \$8,000 to \$11,000 through September 1, 2031; interest is at 2.50%.	142,000.00
\$429,792.62 Promissory Note of 2013; due in annual installments of \$37,452.81 through September 3, 2029; interest is at 3.50%.	382,946.28
\$2,215,000 Refunding Improvement Bonds of 2014; due in annual installments of \$185,000 through May 1, 2028; interest is from 1% to 4%.	2,220,000.00
\$720,000 Refunding Improvement Bonds of 2016; due in annual installments of \$45,000 to \$55,000 through May 1, 2031; interest is at 1.75%.	720,000.00
Total Special Assessment Bonds	<u><u>3,894,946.28</u></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>
2017	330,148.53	93,723.03
2018	337,649.50	87,062.06
2019	323,524.22	81,232.34
2020	309,429.97	74,944.09
2021	311,367.87	68,122.44
2022-2026	1,495,114.91	224,589.14
2027-2031	787,711.28	38,175.82
Total	<u><u>3,894,946.28</u></u>	<u><u>667,848.92</u></u>

The city also received funds through the Bank of North Dakota to provide funding for the 2016 street improvement project and issued the Definitive Improvement Warrant, Series 2016A in the amount of \$710,665. As of December 31, 2016, the city has requested drawdowns of \$408,683.36. The project was not completed as of December 31, 2016 and a final debt service repayment schedule is not yet available since the city had not received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2016 was \$408,683.36. \$301,981.64 is still available at December 31, 2016.

Business-type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 are as follows:

\$1,000,000 Water Improvement Revenue Bonds of 2004; due in annual installments of \$55,000 to \$60,000 through September 1, 2024; interest is at 2.5%.	460,000.00
\$276,120 Sewer Improvement Revenue Bonds of 2005; due in annual installments of \$14,000 to \$16,000 through September 1, 2025; interest is at 2.5%.	133,000.00
Total Revenue Bonds	<u>593,000.00</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>
2017	69,000.00	14,825.00
2018	69,000.00	13,100.00
2019	69,000.00	11,375.00
2020	70,000.00	9,650.00
2021	75,000.00	7,900.00
2022-2025	241,000.00	12,850.00
Total	<u>593,000.00</u> =====	<u>69,700.00</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, 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General - Operating	100,555.31	
Social Security		20,528.52
Advertising		101.28
Insurance Reserve		15,959.02
Forestry		63,966.49
To close funds with discontinued levies.		
General - Police Department - Vehicle Reserve	5,000.00	
General - Fire Department - Truck Reserve	5,000.00	
General - Operating		10,000.00
Forestry Reserve General - Operating	40,000.00	40,000.00
Highway - Pickup Reserve	3,000.00	
Highway - Equipment Reserve	3,000.00	
Highway - Operating		6,000.00
Transportation - Vehicle Reserve	5,000.00	
Transportation - Operating		5,000.00
Water - Vehicle Reserve	8,000.00	
Water - Operating		8,000.00
Sewer - Vehicle Reserve	5,000.00	
Sewer - Operating		5,000.00
Garbage - Truck Reserve	20,000.00	
Garbage - Operating		20,000.00
To set-aside funds for future reserves.		

Note 8 DEFICIT FUND BALANCES

The following funds had a deficit balance at December 31, 2016:

Special Revenue Funds

Transportation - Operating	(20,716.21)
City Share of Special Assessments	(9,228.68)

Capital Projects Fund

Hazen Street Improvement Project 2016-1	(537,825.64)
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Agency Fund

Senior Citizens	(6.96)
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The city plans to eliminate these deficits with future revenue collections.

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 \$2,083,269 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, 2016, the city contributed \$57,698.20.

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	312,459.00	312,459.00	328,086.55	15,627.55
Licenses, Permits and Fees	11,800.00	11,800.00	49,826.16	38,026.16
Intergovernmental	983,508.00	983,508.00	950,197.18	(33,310.82)
Charges for Services	35,700.00	35,700.00	37,143.02	1,443.02
Fines and Forfeits	2,500.00	2,500.00	2,500.00	
Miscellaneous	226,340.00	226,340.00	206,540.41	(19,799.59)
Total Revenues	1,572,307.00	1,572,307.00	1,574,293.32	1,986.32
Expenditures:				
Current:				
General Government	855,283.00	855,283.00	400,221.88	455,061.12
Public Safety	521,652.00	521,652.00	483,548.21	38,103.79
Streets and Public Works	404,879.00	404,879.00	605,679.81	(200,800.81)
Culture and Recreation	85,302.00	85,302.00	233,021.47	(147,719.47)
Urban and Economic Development			57,461.00	(57,461.00)
Conservation of Natural Resources			35,984.68	(35,984.68)
Other	25,000.00	25,000.00		25,000.00
Capital Outlay			36,893.00	(36,893.00)
Total Expenditures	1,892,116.00	1,892,116.00	1,852,810.05	39,305.95
Excess (Deficiency) of Revenues Over Expenditures	(319,809.00)	(319,809.00)	(278,516.73)	41,292.27
Other Financing Sources (Uses):				
Transfers In	150,000.00	150,000.00	150,555.31	555.31
Transfers Out			(50,000.00)	(50,000.00)
Total Other Financing Sources (Uses)	150,000.00	150,000.00	100,555.31	(49,444.69)
Net Change in Fund Balances	(169,809.00)	(169,809.00)	(177,961.42)	(8,152.42)
Fund Balance - January 1	1,557,486.88	1,557,486.88	1,557,486.88	
Fund Balance - December 31	1,387,677.88	1,387,677.88	1,379,525.46	(8,152.42)

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City Sales Tax Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	124,000.00	134,579.35	134,501.23	(78.12)
Miscellaneous	370.00	370.00	448.12	78.12
Total Revenues	124,370.00	134,949.35	134,949.35	0.00
<u>Expenditures:</u>				
Current:				
Culture and Recreation	120,000.00	120,000.00		120,000.00
Excess (Deficiency) of Revenues Over Expenditures	4,370.00	14,949.35	134,949.35	120,000.00
<u>Other Financing (Uses):</u>				
Transfers Out	(100,000.00)	(100,000.00)		100,000.00
Net Change in Fund Balances	(95,630.00)	(85,050.65)	134,949.35	220,000.00
Fund Balance - January 1	694,326.50	694,326.50	694,326.50	
Fund Balance - December 31	598,696.50	609,275.85	829,275.85	220,000.00

CITY OF HAZEN
Hazen, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Transportation Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	26,480.00	26,480.00	23,896.21	(2,583.79)
Intergovernmental	369,400.00	397,122.87	398,960.14	1,837.27
Charges for Services	28,000.00	28,000.00	38,204.31	10,204.31
Miscellaneous	3,500.00	3,500.00	13,392.21	9,892.21
Total Revenues	427,380.00	455,102.87	474,452.87	19,350.00
Expenditures:				
Current:				
Other	147,072.00	147,072.00	147,467.17	(395.17)
Capital Outlay	385,000.00	385,000.00	364,260.00	20,740.00
Total Expenditures	532,072.00	532,072.00	511,727.17	20,344.83
Excess (Deficiency) of Revenues Over Expenditures	(104,692.00)	(76,969.13)	(37,274.30)	39,694.83
Other Financing Sources (Uses):				
Transfers In	19,350.00	19,350.00	5,000.00	(14,350.00)
Transfers Out			(5,000.00)	(5,000.00)
Total Other Financing Sources (Uses)	19,350.00	19,350.00		(19,350.00)
Net Change in Fund Balances	(85,342.00)	(57,619.13)	(37,274.30)	20,344.83
Fund Balance - January 1	95,240.09	95,240.09	95,240.09	
Fund Balance - December 31	9,898.09	37,620.96	57,965.79	20,344.83

CITY OF HAZEN
Hazen, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the city's budget for the year ending December 31, 2016:

	Original Budget	Amendment	Amended Budget
<u>Estimated Revenues</u>			
<u>Special Revenue Funds</u>			
City Sales Tax	124,370	10,579	134,949
Transportation	427,380	27,723	455,103
City Share of Sp. Assess.	11,086	5,132	16,218
Emergency		49	49
Job Development	28,000	5,304	33,304
Library	43,435	22,967	66,402
Cemetery		314	314
Visitors Promotion	29,000	7,707	36,707
HCD - City Enterprise	123,100	11,535	134,635
<u>Debt Service Funds</u>			
Flood Protection Dist.	52,350	5,550	57,900
Sanitary Sewer Main Repl.	14,000	3,520	17,520
Elbowoods W/S Imp. Dist.	36,855	4,573	41,428
<u>Appropriations</u>			
<u>Special Revenue Funds</u>			
City Share of Sp. Assess.	17,000	8,782	25,782
Library	50,250	15,652	65,902
Cemetery		208	208
Visitors Promotion	30,000	3,167	33,167
<u>Debt Service Fund</u>			
St. Imp. Proj. 2014-1	238,694	1,238	239,932

CITY OF HAZEN
Hazen, North Dakota

Schedule of Fund Activity
For the Year Ended December 31, 2016

	Balance 1-1-16	Revenues	Transfers In	Transfers Out	Expenditures	Balance 12-31-16
Major Governmental Funds						
General Fund						
Operating	909,767.73	1,548,656.33	100,555.31	50,000.00	1,852,810.05	656,169.32
Building & Equip. - Reserve	339,704.97	97.19				339,802.16
Water & Sewer 93-1 Reserve	79,185.14	318.19				79,503.33
Unemployment Reserve	28,718.44	184.38				28,902.82
Telecommunication Radio Reserve	30,000.00					30,000.00
Forestry Reserve		25.00	40,000.00			40,025.00
Bike Path Reserve	285.77					285.77
Liability Insurance Reserve	20,000.00					20,000.00
Technology Reserve	69,280.00					69,280.00
Police Department						
- Investigations Reserve	3,481.38	12.23				3,493.61
Police Department						
- Vehicle Reserve	13,256.38		5,000.00			18,256.38
Fire Dept. - Truck Reserve	41,532.07	25,000.00	5,000.00			71,532.07
Fire Dept. - Siren Reserve	9,000.00					9,000.00
Safety Saves Reserve	13,275.00					13,275.00
Total General Fund	1,557,486.88	1,574,293.32	150,555.31	50,000.00	1,852,810.05	1,379,525.46
City Sales Tax	694,326.50	134,949.35				829,275.85
Transportation Fund						
Operating	21,558.09	474,452.87		5,000.00	511,727.17	(20,716.21)
Building Reserve	18,500.00					18,500.00
Vehicle Reserve	55,182.00		5,000.00			60,182.00
Hazen Street Improvement Project 2014-1	694,820.28	155,910.12			238,731.55	611,998.85
Hazen Street Improvement Project 2016-1		1,117,883.36			1,655,709.00	(537,825.64)
Total Major Governmental Funds	3,041,873.75	3,457,489.02	155,555.31	55,000.00	4,258,977.77	2,340,940.31
Non-Major Governmental Funds						
Highway Fund						
Operating	36,374.22	156,414.78		6,000.00	183,314.07	3,474.93
Pickup Reserve	66,000.00		3,000.00			69,000.00
Equipment Reserve	229,787.82	628.73	3,000.00			233,416.55
Street Repair Reserve.	29,000.00					29,000.00
Ashpalt Crushing Reserve	15,000.00					15,000.00
Building Reserve	12,000.00					12,000.00
Social Security	20,528.52			20,528.52		
City Share of Special Assess.	5,670.53	10,882.60			25,781.81	(9,228.68)
Special Assessment Deficiency Reserve for City Lots	66,274.79	32,414.90				98,689.69
Reserve for Fayette Drive	68,315.09					68,315.09
Reserve for Fayette Drive	78,755.19					78,755.19
Advertising	101.28			101.28		
Emergency	17,329.21	48.73			7,750.55	9,627.39
Job Development		27,640.93			27,392.38	248.55
Library	29,923.22	72,402.06			45,169.82	57,155.46
Cemetery	55,773.90	314.17			207.69	55,880.38
Insurance Reserve	15,959.02			15,959.02		

(continued)

CITY OF HAZEN
Hazen, North Dakota

Schedule of Fund Activity
For the Year Ended December 31, 2016
(continued)

	Balance 1-1-16	Revenues	Transfers In	Transfers Out	Expenditures	Balance 12-31-16
<u>Non-Major Gov. Funds (continued)</u>						
Urban Renewal	5,629.61					5,629.61
Visitors Promotions		36,707.21			33,167.26	3,539.95
HCD - City Enterprises	79,886.36	134,635.10			123,000.00	91,521.46
Forestry	63,966.49			63,966.49		
Highway Special Distribution	56,956.14					56,956.14
Hazen Community Development	3,957.05				3,957.05	
Street Improvement 2004-1 & 2	25,880.48	607.71				26,488.19
Street Improvement 2005-1 & 2	(21,373.11)	48,486.08				27,112.97
S-2009 Sanitary Bore	68,316.47	26,013.49			25,900.00	68,429.96
Flood Protection District	96,714.80	57,900.11			58,663.00	95,951.91
Sanitary Sewer Main Replacement	54,623.80	17,520.13			12,500.00	59,643.93
Elbowoods W/S Improvement District 2013-1	98,024.28	41,427.96			37,452.81	101,999.43
Total Non-Major Governmental	1,279,375.16	664,044.69	6,000.00	106,555.31	584,256.44	1,258,608.10
Total Governmental Funds	4,321,248.91	4,121,533.71	161,555.31	161,555.31	4,843,234.21	3,599,548.41
<u>Major Enterprise Funds</u>						
<u>Water Fund</u>						
Operating	433,351.70	572,036.93		8,000.00	617,906.42	379,482.21
Building & Equip. Reserve	53,325.00					53,325.00
Water Treatment Plant Reserves	30,000.00					30,000.00
Meter Reserves	132,171.56	18,156.01				150,327.57
Equipment/Generator Reserve	8,000.00					8,000.00
Vehicle Reserve	1,615.60		8,000.00			9,615.60
Storage Tank Reserve	20,000.00					20,000.00
<u>Sewer Fund</u>						
Operating	134,895.24	151,772.64		5,000.00	160,470.03	121,197.85
Equipment Reserve	3,500.00					3,500.00
Sewer Mains & Lagoon Reserves	60,000.00					60,000.00
Vehicle Reserve	410.40		5,000.00			5,410.40
Debt Service Reserve	10,000.00					10,000.00
Lift Station Reserve	114,899.65	12,251.10				127,150.75
<u>Garbage Fund</u>						
Operating	180,796.44	236,240.11		20,000.00	231,867.05	165,169.50
Truck Reserve	195,131.00		20,000.00			215,131.00
Container Reserve	50,000.00					50,000.00
Safety Reserve	10,000.00					10,000.00
Total Major Enterprise Funds	1,438,096.59	990,456.79	33,000.00	33,000.00	1,010,243.50	1,418,309.88
<u>Agency Funds</u>						
Recreation	853.67	7,422.06				8,275.73
Senior Citizens	(6.96)					(6.96)
Hazen Park District		169,496.90			169,496.90	
Total Agency Funds	846.71	176,918.96			169,496.90	8,268.77
Total All Funds	5,760,192.21	5,288,909.46	194,555.31	194,555.31	6,022,974.61	5,026,127.06

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, Hazen, North Dakota, 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 10, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

February 10, 2017

CITY OF HAZEN
Hazen, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2016

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 X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one 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 financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2016 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.