

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**CITY OF HILLSBORO  
HILLSBORO, NORTH DAKOTA**

**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**



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CITY OF HILLSBORO  
Hillsboro, North Dakota

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December 31, 2012 and 2011

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**CITY OF HILLSBORO**  
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CITY OF HILLSBORO  
Hillsboro, North Dakota

**CITY OFFICIALS**

December 31, 2012

Mark Forseth	President
Curt Kaufman	Vice-President
Lorraine Tibert	Board Member
Mike Kress	Board Member
Dave Sather	Board Member
Lesley Connelly	Auditor
Becky Foss	Deputy Auditor
John Juelson	Attorney

December 31, 2011

Mark Forseth	President
Curt Kaufman	Vice-President
Lorraine Tibert	Board Member
Charles Stock	Board Member
Dave Sather	Board Member
Lesley Connelly	Auditor
Becky Foss	Deputy Auditor
John Juelson	Attorney

**STATE AUDITOR**

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

**REPORT ON BASIC FINANCIAL STATEMENTS THAT INCLUDES MULTIPLE OPINION MODIFICATIONS,  
INCLUDING AN ADVERSE OPINION BECAUSE CAPITAL ASSETS ARE OMITTED FROM GOVERNMENTAL  
ACTIVITIES, BUSINESS-TYPE ACTIVITIES, AND MAJOR BUSINESS-TYPE FUNDS**

Independent Auditor's Opinion

City Commission  
City of Hillsboro  
Hillsboro, North Dakota 58045

**Report on the Financial Statements**

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 Hillsboro, North Dakota, as of and for the years ended December 31, 2012 and 2011, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Summary of Opinions**

Governmental Activities	Adverse
Business-Type Activities	Adverse
Major Governmental Funds	Unmodified on modified cash basis
Major Business-Type Funds	Adverse
Aggregate Remaining Fund Information	Unmodified on modified cash basis

## **CITY OF HILLSBORO**

Report on Basic Financial Statements that Includes Multiple Opinion Modifications, Including an Adverse Opinion Because Capital Assets are Omitted from Governmental Activities, Business-Type Activities, and Major Business-Type Funds - Continued

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### **Basis for Adverse Opinions Governmental Activities, Business-Type Activities, and Major Business-Type Funds**

As discussed in Note 1 to the financial statements, management has not recorded capital assets in the governmental activities, the business-type activities and the major business-type funds and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities, the business-type activities and the major business-type funds. The amount by which this departure would affect the assets, net position and expenses of the governmental activities, the business-type activities and the business-type funds is not reasonably determinable.

### **Adverse Opinions**

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities and the major business-type funds of the City of Hillsboro, North Dakota, as of December 31, 2012 and 2011, and the changes in financial position thereof for the years then ended.

### **Basis for Unmodified Opinion of Modified Cash Basis for Major Governmental Funds and Aggregate Remaining Fund Information**

As discussed in Note 1 to the financial statements, the City of Hillsboro, North Dakota, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position modified cash basis of each major governmental fund, and the aggregate remaining fund information of the governmental funds of the City of Hillsboro, North Dakota, as of December 31, 2012 and 2011, and the respective changes in financial position modified cash basis thereof, for the years then ended in conformity with the basis of accounting described in Note 1.

### **Other Matters**

#### *Required Supplementary Information*

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.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 37-39 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.

**CITY OF HILLSBORO**

Report on Basic Financial Statements that Includes Multiple Opinion Modifications, Including an Adverse Opinion Because Capital Assets are Omitted from Governmental Activities, Business-Type Activities, and Major Business-Type Funds - Continued

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*Other Information*

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

The *schedule of fund activity arising from cash transactions* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 schedule of fund activity arising from cash transactions is fairly stated on the modified cash basis of accounting, in all material respects in relation to the financial statements taken as a whole.

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2013 on our consideration of the City of Hillsboro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Hillsboro's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

May 10, 2013

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash	\$ 793,163	\$ -	\$ 793,163
Investments	297,868	-	297,868
Due from Enterprise Funds	169,940	-	169,940
Other Assets	-	817	817
<b>Total Assets</b>	<b>\$ 1,260,971</b>	<b>\$ 817</b>	<b>\$ 1,261,788</b>
<b>LIABILITIES:</b>			
Benefits Payable	\$ 1,687	\$ 659	\$ 2,346
Due to Governmental Funds	-	169,940	169,940
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	400,000	-	400,000
Revenue Bonds Payable	-	120,000	120,000
State Revolving Loan Fund Payable	79,000	-	79,000
Due After One Year:			
Special Assessment Bonds Payable	4,045,000	-	4,045,000
Revenue Bonds Payable	-	2,243,000	2,243,000
State Revolving Loan Fund Payable	1,040,478	-	1,040,478
<b>Total Liabilities</b>	<b>\$ 5,566,165</b>	<b>\$ 2,533,599</b>	<b>\$ 8,099,764</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service	\$ 431,472	\$ -	\$ 431,472
Public Works	253,443	-	253,443
Economic/Job Development	380,593	-	380,593
Culture and Recreation	3,242	-	3,242
Emergency	33,670	-	33,670
Other Purposes	30,758	-	30,758
Unrestricted	(5,438,372)	(2,532,782)	(7,971,154)
<b>Total Net Position</b>	<b>\$ (4,305,194)</b>	<b>\$ (2,532,782)</b>	<b>\$ (6,837,976)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Governmental Activities:</b>						
General Government	\$ 380,076	\$ 22,873	\$ -	\$ (357,203)	\$ -	\$ (357,203)
Public Safety	156,089	-	-	(156,089)	-	(156,089)
Public Works/Infrastructure	216,678	15,573	148,843	(52,262)	-	(52,262)
Culture and Recreation	71,222	13,964	-	(57,258)	-	(57,258)
Miscellaneous	5,000	-	-	(5,000)	-	(5,000)
Capital Outlay	198,508	-	-	(198,508)	-	(198,508)
Interest on Long-Term Debt	244,406	-	-	(244,406)	-	(244,406)
<b>Total Governmental Activities</b>	<b>\$ 1,271,979</b>	<b>\$ 52,410</b>	<b>\$ 148,843</b>	<b>\$ (1,070,726)</b>	<b>\$ -</b>	<b>\$ (1,070,726)</b>
<b>Business-Type Activities:</b>						
Water Funds	\$ 5,253,079	\$ 353,504	\$ 3,663,135	\$ -	\$ (1,236,440)	\$ (1,236,440)
Electric Funds	1,601,540	1,879,285	-	-	277,745	277,745
Sewer Funds	616,110	114,564	-	-	(501,546)	(501,546)
Sanitation	186,768	191,675	-	-	4,907	4,907
<b>Total Business-Type Activities</b>	<b>\$ 7,657,497</b>	<b>\$ 2,539,028</b>	<b>\$ 3,663,135</b>	<b>\$ -</b>	<b>\$ (1,455,334)</b>	<b>\$ (1,455,334)</b>
<b>Total Primary Government</b>	<b>\$ 8,929,476</b>	<b>\$ 2,591,438</b>	<b>\$ 3,811,978</b>	<b>\$ (1,070,726)</b>	<b>\$ (1,455,334)</b>	<b>\$ (2,526,060)</b>
<b>General Revenues:</b>						
Taxes:						
Property taxes levied for general purposes	\$ 98,647	\$ -	\$ 98,647			
Property taxes levied for special purposes	166,817	-	166,817			
Property taxes levied for debt service	594,947	-	594,947			
Sales taxes	300,590	-	300,590			
State Aid Distribution	162,308	-	162,308			
Interest Income	1,021	2,922	3,943			
Miscellaneous Revenue	87,818	13,232	101,050			
Transfers	200,000	(200,000)	-			
<b>Total General Revenues and Transfers</b>	<b>\$ 1,612,148</b>	<b>\$ (183,846)</b>	<b>\$ 1,428,302</b>			
<b>Change in Net Position</b>	<b>\$ 541,422</b>	<b>\$ (1,639,180)</b>	<b>\$ (1,097,758)</b>			
<b>Net Position - January 1</b>	<b>\$ (4,846,616)</b>	<b>\$ (893,602)</b>	<b>\$ (5,740,218)</b>			
<b>Net Position - December 31</b>	<b>\$ (4,305,194)</b>	<b>\$ (2,532,782)</b>	<b>\$ (6,837,976)</b>			

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

	Major Funds						
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 142,000	\$ 187,702	\$ 35,735	\$ -	\$ 294,046	\$ 133,680	\$ 793,163
Investments	-	-	174,918	-	122,950	-	297,868
Due from Other Funds	98	-	169,940	-	14,476	-	184,514
<b>Total Assets</b>	<b>\$ 142,098</b>	<b>\$ 187,702</b>	<b>\$ 380,593</b>	<b>\$ -</b>	<b>\$ 431,472</b>	<b>\$ 133,680</b>	<b>\$ 1,275,545</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Benefits Payable	\$ 1,418	\$ 39	\$ -	\$ -	\$ -	\$ 230	\$ 1,687
Due to Other Funds	-	-	-	14,476	-	98	14,574
<b>Total Liabilities</b>	<b>\$ 1,418</b>	<b>\$ 39</b>	<b>\$ -</b>	<b>\$ 14,476</b>	<b>\$ -</b>	<b>\$ 328</b>	<b>\$ 16,261</b>
<b>Fund Balances:</b>							
<b>Committed:</b>							
Culture and Recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,242	\$ 3,242
General Government	-	-	-	-	-	24,115	24,115
<b>Restricted:</b>							
Debt Service	-	-	-	-	431,472	-	431,472
Public Works	-	187,663	-	-	-	65,780	253,443
Economic Development	-	-	380,593	-	-	-	380,593
Emergency	-	-	-	-	-	33,670	33,670
General Government	-	-	-	-	-	6,643	6,643
Unassigned	140,680	-	-	(14,476)	-	(98)	126,106
<b>Total Fund Balances</b>	<b>\$ 140,680</b>	<b>\$ 187,663</b>	<b>\$ 380,593</b>	<b>\$(14,476)</b>	<b>\$ 431,472</b>	<b>\$ 133,352</b>	<b>\$ 1,259,284</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 142,098</b>	<b>\$ 187,702</b>	<b>\$ 380,593</b>	<b>\$ -</b>	<b>\$ 431,472</b>	<b>\$ 133,680</b>	<b>\$ 1,275,545</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF HILLSBORO  
Hillsboro, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2012

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Total *Fund Balances* for Governmental Funds \$ 1,259,284

Total *net position* reported for governmental activities in the statement of net position is different because:

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. All liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2012 are:

Special Assessment Bonds Payable	\$ (4,445,000)	
Loans Payable	<u>(1,119,478)</u>	
Total Long-Term Liabilities		<u>(5,564,478)</u>
Total Net Position of Governmental Activities		<u>\$ (4,305,194)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2012

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds		
<u>Revenues:</u>							
Property Taxes	\$ 98,647	\$ -	\$ -	\$ -	\$ 91,551	\$ 75,266	\$ 265,464
Sales Taxes	-	-	300,590	-	-	-	300,590
Special Assessments	-	-	-	-	594,947	-	594,947
Licenses, Permits and Fees	21,193	-	-	-	-	-	21,193
Intergovernmental	162,308	148,843	-	-	-	-	311,151
Charges for Services	13,964	-	-	-	-	16,398	30,362
Fines and Forfeits	855	-	-	-	-	-	855
Interest Income	576	-	432	-	-	13	1,021
Miscellaneous	30,005	-	-	10,066	1,221	46,526	87,818
<b>Total Revenues</b>	<b>\$ 327,548</b>	<b>\$ 148,843</b>	<b>\$ 301,022</b>	<b>\$ 10,066</b>	<b>\$ 687,719</b>	<b>\$ 138,203</b>	<b>\$ 1,613,401</b>
<u>Expenditures:</u>							
Current:							
General Government	\$ 143,891	\$ -	\$ 173,467	\$ -	\$ -	\$ 62,718	\$ 380,076
Public Safety	156,089	-	-	-	-	-	156,089
Public Works	-	171,477	-	-	-	45,201	216,678
Culture and Recreation	71,222	-	-	-	-	-	71,222
Other	5,000	-	-	-	-	-	5,000
Capital Outlay	-	-	-	198,508	-	-	198,508
Dept Service:							
Principal	-	-	-	-	1,065,000	-	1,065,000
Interest	-	-	-	-	219,853	-	219,853
Fees	-	-	-	-	16,990	-	16,990
<b>Total Expenditures</b>	<b>\$ 376,202</b>	<b>\$ 171,477</b>	<b>\$ 173,467</b>	<b>\$ 198,508</b>	<b>\$ 1,301,843</b>	<b>\$ 107,919</b>	<b>\$ 2,329,416</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (48,654)	\$ (22,634)	\$ 127,555	\$ (188,442)	\$ (614,124)	\$ 30,284	\$ (716,015)
<u>Other Financing Sources (Uses):</u>							
Transfers In	\$ 131,673	\$ 85,000	\$ -	\$ 387,068	\$ 20,000	\$ 19,800	\$ 643,541
Bonds Proceeds	-	-	-	-	605,000	-	605,000
Bond Discount	-	-	-	-	(7,563)	-	(7,563)
Transfers Out	(7,673)	(5,000)	(62,000)	(1,800)	(367,068)	-	(443,541)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 124,000</b>	<b>\$ 80,000</b>	<b>\$ (62,000)</b>	<b>\$ 385,268</b>	<b>\$ 250,369</b>	<b>\$ 19,800</b>	<b>\$ 797,437</b>
<b>Net Change in Fund Balances</b>	<b>\$ 75,346</b>	<b>\$ 57,366</b>	<b>\$ 65,555</b>	<b>\$ 196,826</b>	<b>\$ (363,755)</b>	<b>\$ 50,084</b>	<b>\$ 81,422</b>
Fund Balances - January 1	\$ 65,334	\$ 130,297	\$ 315,038	\$ (211,302)	\$ 795,227	\$ 83,268	\$ 1,177,862
<b>Fund Balance - December 31</b>	<b>\$ 140,680</b>	<b>\$ 187,663</b>	<b>\$ 380,593</b>	<b>\$ (14,476)</b>	<b>\$ 431,472</b>	<b>\$ 133,352</b>	<b>\$ 1,259,284</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF HILLSBORO  
Hillsboro, 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, 2012

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Net Change in *Fund Balances* - Total Governmental Funds \$ 81,422

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Issuance of long-term debt decreases net position. This is the amount by which debt repayment exceeded debt proceeds.

Repayment of Special Assessment Bonds	\$ 970,000	
Issuance of Special Assessment Bonds	(605,000)	
Repayment of Loans	95,000	460,000

Change in Net Position of Governmental Activities \$ 541,422

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2012

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation	Total Enterprise Funds
<b>ASSETS</b>					
Other Assets	\$ -	\$ 99	\$ 718	\$ -	\$ 817
Due from Other Funds	-	833,216	307,650	35,869	1,176,735
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 833,315</b>	<b>\$ 308,368</b>	<b>\$ 35,869</b>	<b>\$ 1,177,552</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Benefits Payable	\$ 659	\$ -	\$ -	\$ -	\$ 659
Due to Other Funds	1,346,675	-	-	-	1,346,675
Bonds Payable	-	120,000	-	-	120,000
<b>Total Current Liabilities</b>	<b>\$ 1,347,334</b>	<b>\$ 120,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,467,334</b>
<b>Noncurrent Liabilities:</b>					
Bonds Payable	\$ 1,208,000	\$ 300,000	\$ 735,000	\$ -	\$ 2,243,000
<b>Total Liabilities</b>	<b>\$ 2,555,334</b>	<b>\$ 420,000</b>	<b>\$ 735,000</b>	<b>\$ -</b>	<b>\$ 3,710,334</b>
<b>NET POSITION</b>					
Unrestricted	\$ (2,555,334)	\$ 413,315	\$ (426,632)	\$ 35,869	\$ (2,532,782)
<b>Total Net Position</b>	<b>\$ (2,555,334)</b>	<b>\$ 413,315</b>	<b>\$ (426,632)</b>	<b>\$ 35,869</b>	<b>\$ (2,532,782)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds
	Water Funds	Electric Funds	Sewer Funds	Sanitation	
<u>Operating Revenues:</u>					
<u>Charges for Sales and Services:</u>					
Water Operations	\$ 352,304	\$ -	\$ -	\$ -	\$ 352,304
Sewer Operations	-	-	114,564	-	114,564
Electric Operations	-	1,742,588	-	-	1,742,588
Sanitary Operations	-	-	-	187,675	187,675
MRES Billings	-	127,497	-	-	127,497
Other Operating Receipts	1,200	9,200	-	4,000	14,400
<b>Total Operating Revenues</b>	<b>\$ 353,504</b>	<b>\$ 1,879,285</b>	<b>\$ 114,564</b>	<b>\$ 191,675</b>	<b>\$ 2,539,028</b>
<u>Operating Expenses:</u>					
Salaries and Wages	\$ 94,751	\$ 89,173	\$ 29,251	\$ -	\$ 213,175
Contracted Services	42,357	31,011	5,576	182,370	261,314
Engineering	200,632	-	108,900	-	309,532
Legal	-	-	12,746	-	12,746
Maintenance & Supplies	65,362	86,506	34,395	4,398	190,661
Purchased Power Costs	-	1,367,697	-	-	1,367,697
Miscellaneous	77,343	6,172	3,582	-	87,097
<b>Total Operating Disbursements</b>	<b>\$ 480,445</b>	<b>\$ 1,580,559</b>	<b>\$ 194,450</b>	<b>\$ 186,768</b>	<b>\$ 2,442,222</b>
<b>Operating Income (Loss)</b>	<b>\$ (126,941)</b>	<b>\$ 298,726</b>	<b>\$ (79,886)</b>	<b>\$ 4,907</b>	<b>\$ 96,806</b>
<u>Nonoperating Revenues (Expenses):</u>					
Interest on Investments	\$ 844	\$ 1,782	\$ 296	\$ -	\$ 2,922
Grants	3,663,135	-	-	-	3,663,135
Miscellaneous	2,004	3,509	4,400	3,319	13,232
Construction/Capital Outlay	(4,761,911)	-	(409,885)	-	(5,171,796)
Bond Discount	-	-	(11,025)	-	(11,025)
Retirement of Debt - Interest & Fees	(10,723)	(20,981)	(750)	-	(32,454)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (1,106,651)</b>	<b>\$ (15,690)</b>	<b>\$ (416,964)</b>	<b>\$ 3,319</b>	<b>\$ (1,535,986)</b>
<b>Income Before Transfers</b>	<b>\$ (1,233,592)</b>	<b>\$ 283,036</b>	<b>\$ (496,850)</b>	<b>\$ 8,226</b>	<b>\$ (1,439,180)</b>
Transfers In	\$ 4,562	\$ 145,000	\$ -	\$ -	\$ 149,562
Transfers Out	(9,562)	(335,000)	(5,000)	-	(349,562)
<b>Total Transfers</b>	<b>\$ (5,000)</b>	<b>\$ (190,000)</b>	<b>\$ (5,000)</b>	<b>\$ -</b>	<b>\$ (200,000)</b>
<b>Change in Net Position</b>	<b>\$ (1,238,592)</b>	<b>\$ 93,036</b>	<b>\$ (501,850)</b>	<b>\$ 8,226</b>	<b>\$ (1,639,180)</b>
<b>Total Net Position - January 1</b>	<b>\$ (1,316,742)</b>	<b>\$ 320,279</b>	<b>\$ 75,218</b>	<b>\$ 27,643</b>	<b>\$ (893,602)</b>
<b>Total Net Position - December 31</b>	<b>\$ (2,555,334)</b>	<b>\$ 413,315</b>	<b>\$ (426,632)</b>	<b>\$ 35,869</b>	<b>\$ (2,532,782)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>					
Receipts from Customers and Users	\$ 353,504	\$ 1,879,285	\$ 114,564	\$ 191,675	\$ 2,539,028
Payments to Suppliers	(385,694)	(1,491,386)	(165,199)	(186,768)	(2,229,047)
Payments to Employees	(94,751)	(89,173)	(29,251)	-	(213,175)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (126,941)</b>	<b>\$ 298,726</b>	<b>\$ (79,886)</b>	<b>\$ 4,907</b>	<b>\$ 96,806</b>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Miscellaneous Revenue (Expense)	\$ 2,004	\$ 3,509	\$ 4,400	\$ 3,319	\$ 13,232
Grants	3,663,135	-	-	-	3,663,135
Cash Overdraft Position Assumed to be Financed	1,346,675	(833,216)	(307,650)	(35,869)	169,940
Transfers from Other Funds	4,562	145,000	-	-	149,562
Tranfers to Other Funds	(9,562)	(335,000)	(5,000)	-	(349,562)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>\$ 5,006,814</b>	<b>\$ (1,019,707)</b>	<b>\$ (308,250)</b>	<b>\$ (32,550)</b>	<b>\$ 3,646,307</b>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Purchases and Construction of Capital Assets	\$ (4,761,911)	\$ -	\$ (409,885)	\$ -	\$ (5,171,796)
Issuance of Capital Debt	67,938	-	723,975	-	791,913
Principal Paid on Capital Debt	(49,679)	(120,000)	-	-	(169,679)
Interest Paid on Capital Debt	(10,723)	(20,981)	(750)	-	(32,454)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>\$ (4,754,375)</b>	<b>\$ (140,981)</b>	<b>\$ 313,340</b>	<b>\$ -</b>	<b>\$ (4,582,016)</b>
<u>Cash Flows from Investing Activities:</u>					
Purchases, Sales & Maturities of Investments	\$ (126,342)	\$ 649,808	\$ 50,172	\$ -	\$ 573,638
Interest Income	844	1,782	296	-	2,922
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>\$ (125,498)</b>	<b>\$ 651,590</b>	<b>\$ 50,468</b>	<b>\$ -</b>	<b>\$ 576,560</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ -</b>	<b>\$ (210,372)</b>	<b>\$ (24,328)</b>	<b>\$ (27,643)</b>	<b>\$ (262,343)</b>
Cash and Cash Equivalents, January 1	\$ -	\$ 210,372	\$ 24,328	\$ 27,643	\$ 262,343
<b>Cash and Cash Equivalents, December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ (126,941)	\$ 298,726	\$ (79,886)	\$ 4,907	\$ 96,806
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (126,941)</b>	<b>\$ 298,726</b>	<b>\$ (79,886)</b>	<b>\$ 4,907</b>	<b>\$ 96,806</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash	\$ 921,709	\$ 262,343	\$ 1,184,052
Investments	257,880	573,638	831,518
Other Assets	-	817	817
<b>Total Assets</b>	<b>\$ 1,179,589</b>	<b>\$ 836,798</b>	<b>\$ 2,016,387</b>
<b>LIABILITIES:</b>			
Benefits Payable	\$ 1,727	\$ 659	\$ 2,386
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	380,000	-	380,000
Revenue Bonds Payable	-	120,000	120,000
State Revolving Loan Fund Payable	77,000	-	77,000
Due After One Year:			
Special Assessment Bonds Payable	4,430,000	-	4,430,000
Revenue Bonds Payable	-	1,609,741	1,609,741
State Revolving Loan Fund Payable	1,137,478	-	1,137,478
<b>Total Liabilities</b>	<b>\$ 6,026,205</b>	<b>\$ 1,730,400</b>	<b>\$ 7,756,605</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service	\$ 795,227	\$ -	\$ 795,227
Public Works	180,512	-	180,512
Economic/Job Development	315,038	-	315,038
Culture and Recreation	638	-	638
Emergency	21,646	-	21,646
Other Purposes	17,542	-	17,542
Unrestricted	(6,177,219)	(893,602)	(7,070,821)
<b>Total Net Position</b>	<b>\$ (4,846,616)</b>	<b>\$ (893,602)</b>	<b>\$ (5,740,218)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General Government	\$ 338,917	\$ 29,597	\$ 5,356	\$ -	\$ (303,964)	\$ -	\$ (303,964)
Public Safety	120,481	-	-	-	(120,481)	-	(120,481)
Public Works/Infrastructure	227,826	15,545	135,479	-	(76,802)	-	(76,802)
Culture and Recreation	61,862	12,142	-	-	(49,720)	-	(49,720)
Miscellaneous	6,394	-	-	-	(6,394)	-	(6,394)
Capital Outlay	34,951	-	-	-	(34,951)	-	(34,951)
Interest on Long-Term Debt	256,932	-	-	-	(256,932)	-	(256,932)
<b>Total Governmental Activities</b>	<b>\$ 1,047,363</b>	<b>\$ 57,284</b>	<b>\$ 140,835</b>	<b>\$ -</b>	<b>\$ (849,244)</b>	<b>\$ -</b>	<b>\$ (849,244)</b>
<b>Business-Type Activities:</b>							
Water Funds	\$ 1,312,777	\$ 318,161	\$ -	\$ 582,640	\$ -	\$ (411,976)	\$ (411,976)
Electric Funds	1,657,743	1,979,407	-	-	-	321,664	321,664
Sewer Funds	115,449	107,175	-	-	-	(8,274)	(8,274)
Sanitation	175,823	181,809	-	-	-	5,986	5,986
<b>Total Business-Type Activities</b>	<b>\$ 3,261,792</b>	<b>\$ 2,586,552</b>	<b>\$ -</b>	<b>\$ 582,640</b>	<b>\$ -</b>	<b>\$ (92,600)</b>	<b>\$ (92,600)</b>
<b>Total Primary Government</b>	<b>\$ 4,309,155</b>	<b>\$ 2,643,836</b>	<b>\$ 140,835</b>	<b>\$ 582,640</b>	<b>\$ (849,244)</b>	<b>\$ (92,600)</b>	<b>\$ (941,844)</b>
<b>General Revenues:</b>							
Taxes:							
Property taxes levied for general purposes					\$ 99,738	\$ -	\$ 99,738
Property taxes levied for special purposes					205,986	-	205,986
Property taxes levied for debt service					568,902	-	568,902
Sales taxes					242,482	-	242,482
State Aid Distribution					111,965	-	111,965
Interest Income					5,785	3,740	9,525
Miscellaneous Revenue					47,617	690	48,307
Transfers					200,000	(200,000)	-
<b>Total General Revenues and Transfers</b>					<b>\$ 1,482,475</b>	<b>\$ (195,570)</b>	<b>\$ 1,286,905</b>
<b>Change in Net Position</b>					<b>\$ 633,231</b>	<b>\$ (288,170)</b>	<b>\$ 345,061</b>
<b>Net Position - January 1</b>					<b>\$ (5,479,847)</b>	<b>\$ (605,432)</b>	<b>\$ (6,085,279)</b>
<b>Net Position - December 31</b>					<b>\$ (4,846,616)</b>	<b>\$ (893,602)</b>	<b>\$ (5,740,218)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	Major Funds						Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds	Other Governmental Funds	
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 60,219	\$ 130,336	\$ 179,868	\$ -	\$ 461,215	\$ 90,071	\$ 921,709
Investments	-	-	135,170	-	122,710	-	257,880
Due from Other Funds	6,573	-	-	-	211,302	-	217,875
<b>Total Assets</b>	<b>\$ 66,792</b>	<b>\$ 130,336</b>	<b>\$ 315,038</b>	<b>\$ -</b>	<b>\$ 795,227</b>	<b>\$ 90,071</b>	<b>\$ 1,397,464</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Benefits Payable	\$ 1,458	\$ 39	\$ -	\$ -	\$ -	\$ 230	\$ 1,727
Due to Other Funds	-	-	-	211,302	-	6,573	217,875
<b>Total Liabilities</b>	<b>\$ 1,458</b>	<b>\$ 39</b>	<b>\$ -</b>	<b>\$ 211,302</b>	<b>\$ -</b>	<b>\$ 6,803</b>	<b>\$ 219,602</b>
<b>Fund Balances:</b>							
<b>Committed:</b>							
Culture and Recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 638	\$ 638
General Government	-	-	-	-	-	12,569	12,569
<b>Restricted:</b>							
Debt Service	-	-	-	-	795,227	-	795,227
Public Works	-	130,297	-	-	-	50,215	180,512
Economic Development	-	-	315,038	-	-	-	315,038
Emergency	-	-	-	-	-	21,646	21,646
General Government	-	-	-	-	-	4,973	4,973
Unassigned	65,334	-	-	(211,302)	-	(6,773)	(152,741)
<b>Total Fund Balances</b>	<b>\$ 65,334</b>	<b>\$ 130,297</b>	<b>\$ 315,038</b>	<b>\$ (211,302)</b>	<b>\$ 795,227</b>	<b>\$ 83,268</b>	<b>\$ 1,177,862</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 66,792</b>	<b>\$ 130,336</b>	<b>\$ 315,038</b>	<b>\$ -</b>	<b>\$ 795,227</b>	<b>\$ 90,071</b>	<b>\$ 1,397,464</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF HILLSBORO  
Hillsboro, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2011

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Total *Fund Balances* for Governmental Funds \$ 1,177,862

Total *net position* reported for governmental activities in the statement of net position  
is different because:

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. All liabilities -both current and long-term- are reported in  
the statement of net position. Balances at December 31, 2011 are:

Special Assessment Bonds Payable	\$ (4,810,000)	
Loans Payable	<u>(1,214,478)</u>	
Total Long-Term Liabilities		<u>(6,024,478)</u>
Total Net Position of Governmental Activities		<u>\$ (4,846,616)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	Major Funds						Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds	Other Governmental Funds	
<u>Revenues:</u>							
Property Taxes	\$ 99,738	\$ -	\$ -	\$ -	\$ 141,322	\$ 64,664	\$ 305,724
Sales Taxes	-	-	242,482	-	-	-	242,482
Special Assessments	-	-	-	-	568,902	-	568,902
Licenses, Permits and Fees	23,377	-	-	-	-	-	23,377
Intergovernmental	117,321	135,479	-	-	-	-	252,800
Charges for Services	12,142	-	-	-	-	21,595	33,737
Fines and Forfeits	170	-	-	-	-	-	170
Interest Income	-	-	837	-	4,916	32	5,785
Miscellaneous	26,871	150	-	1,523	184	18,889	47,617
<b>Total Revenues</b>	<b>\$ 279,619</b>	<b>\$ 135,629</b>	<b>\$ 243,319</b>	<b>\$ 1,523</b>	<b>\$ 715,324</b>	<b>\$ 105,180</b>	<b>\$ 1,480,594</b>
<u>Expenditures:</u>							
Current:							
General Government	\$ 136,033	\$ -	\$ 150,388	\$ -	\$ -	\$ 52,496	\$ 338,917
Public Safety	120,481	-	-	-	-	-	120,481
Public Works	-	159,723	-	-	-	68,103	227,826
Culture and Recreation	61,862	-	-	-	-	-	61,862
Other	6,394	-	-	-	-	-	6,394
Capital Outlay	-	-	-	34,951	-	-	34,951
Dept Service:							
Principal	-	-	-	-	452,000	-	452,000
Interest	-	-	-	-	245,739	-	245,739
Fees	-	-	-	-	11,193	-	11,193
<b>Total Expenditures</b>	<b>\$ 324,770</b>	<b>\$ 159,723</b>	<b>\$ 150,388</b>	<b>\$ 34,951</b>	<b>\$ 708,932</b>	<b>\$ 120,599</b>	<b>\$ 1,499,363</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (45,151)	\$ (24,094)	\$ 92,931	\$ (33,428)	\$ 6,392	\$ (15,419)	\$ (18,769)
<u>Other Financing Sources (Uses):</u>							
Transfers In	\$ 172,373	\$ 85,000	\$ -	\$ 68,373	\$ 20,000	\$ 14,800	\$ 360,546
Transfers Out	(48,373)	(5,000)	(57,000)	(1,800)	(48,373)	-	(160,546)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 124,000</b>	<b>\$ 80,000</b>	<b>\$ (57,000)</b>	<b>\$ 66,573</b>	<b>\$ (28,373)</b>	<b>\$ 14,800</b>	<b>\$ 200,000</b>
<b>Net Change in Fund Balances</b>	<b>\$ 78,849</b>	<b>\$ 55,906</b>	<b>\$ 35,931</b>	<b>\$ 33,145</b>	<b>\$ (21,981)</b>	<b>\$ (619)</b>	<b>\$ 181,231</b>
Fund Balances - January 1	\$ (13,515)	\$ 74,391	\$ 279,107	\$ (244,447)	\$ 817,208	\$ 83,887	\$ 996,631
<b>Fund Balance - December 31</b>	<b>\$ 65,334</b>	<b>\$ 130,297</b>	<b>\$ 315,038</b>	<b>\$ (211,302)</b>	<b>\$ 795,227</b>	<b>\$ 83,268</b>	<b>\$ 1,177,862</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF HILLSBORO  
Hillsboro, 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, 2011

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Net Change in *Fund Balances* - Total Governmental Funds \$ 181,231

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Issuance of long-term debt decreases net position. This is the amount by which debt repayment exceeded debt proceeds.

Repayment of Special Assessment Bonds	\$ 360,000	
Repayment of Loans	<u>92,000</u>	<u>452,000</u>

Change in Net Position of Governmental Activities \$ 633,231

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2011

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation	Total Enterprise Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ -	\$ 210,372	\$ 24,328	\$ 27,643	\$ 262,343
Investments	-	523,466	50,172	-	573,638
Other Assets	-	99	718	-	817
Due from Other Funds	-	126,342	-	-	126,342
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 860,279</b>	<b>\$ 75,218</b>	<b>\$ 27,643</b>	<b>\$ 963,140</b>
<b>LIABILITIES</b>					
<u>Current Liabilities:</u>					
Benefits Payable	\$ 659	\$ -	\$ -	\$ -	\$ 659
Due to Other Funds	126,342	-	-	-	126,342
Bonds Payable	-	120,000	-	-	120,000
<b>Total Current Liabilities</b>	<b>\$ 127,001</b>	<b>\$ 120,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 247,001</b>
<u>Noncurrent Liabilities:</u>					
Bonds Payable	\$ 1,189,741	\$ 420,000	\$ -	\$ -	\$ 1,609,741
<b>Total Liabilities</b>	<b>\$ 1,316,742</b>	<b>\$ 540,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,856,742</b>
<b>NET POSITION</b>					
Unrestricted	\$ (1,316,742)	\$ 320,279	\$ 75,218	\$ 27,643	\$ (893,602)
<b>Total Net Position</b>	<b>\$ (1,316,742)</b>	<b>\$ 320,279</b>	<b>\$ 75,218</b>	<b>\$ 27,643</b>	<b>\$ (893,602)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds
	Water Funds	Electric Funds	Sewer Funds	Sanitation	
<u>Operating Revenues:</u>					
<u>Charges for Sales and Services:</u>					
Water Operations	\$ 316,961	\$ -	\$ -	\$ -	\$ 316,961
Sewer Operations	-	-	107,141	-	107,141
Electric Operations	-	1,802,595	-	-	1,802,595
Sanitary Operations	-	-	-	177,434	177,434
MRES Billings	-	173,698	-	-	173,698
Other Operating Receipts	1,200	3,114	34	4,375	8,723
Total Operating Revenues	<u>\$ 318,161</u>	<u>\$ 1,979,407</u>	<u>\$ 107,175</u>	<u>\$ 181,809</u>	<u>\$ 2,586,552</u>
<u>Operating Expenses:</u>					
Salaries and Wages	\$ 88,266	\$ 84,895	\$ 25,378	\$ -	\$ 198,539
Contracted Services	21,445	23,659	51,053	173,803	269,960
Engineering	845,397	-	-	-	845,397
Legal	2,421	-	-	-	2,421
Maintenance & Supplies	62,855	45,798	38,624	2,020	149,297
Purchased Power Costs	-	1,477,598	-	-	1,477,598
Miscellaneous	639	-	394	-	1,033
Total Operating Disbursements	<u>\$ 1,021,023</u>	<u>\$ 1,631,950</u>	<u>\$ 115,449</u>	<u>\$ 175,823</u>	<u>\$ 2,944,245</u>
Operating Income (Loss)	<u>\$ (702,862)</u>	<u>\$ 347,457</u>	<u>\$ (8,274)</u>	<u>\$ 5,986</u>	<u>\$ (357,693)</u>
<u>Nonoperating Revenues (Expenses):</u>					
Interest on Investments	\$ 1,994	\$ 1,163	\$ 583	\$ -	\$ 3,740
Grants	582,640	-	-	-	582,640
Miscellaneous	521	(120)	169	-	570
Construction/Capital Outlay	(283,075)	-	-	-	(283,075)
Retirement of Debt - Interest & Fees	(8,679)	(25,673)	-	-	(34,352)
Total Nonoperating Revenues (Expenses)	<u>\$ 293,401</u>	<u>\$ (24,630)</u>	<u>\$ 752</u>	<u>\$ -</u>	<u>\$ 269,523</u>
Income Before Transfers	<u>\$ (409,461)</u>	<u>\$ 322,827</u>	<u>\$ (7,522)</u>	<u>\$ 5,986</u>	<u>\$ (88,170)</u>
Transfers In	\$ 47,474	\$ -	\$ -	\$ -	\$ 47,474
Transfers Out	(52,474)	(190,000)	(5,000)	-	(247,474)
Total Transfers	<u>\$ (5,000)</u>	<u>\$ (190,000)</u>	<u>\$ (5,000)</u>	<u>\$ -</u>	<u>\$ (200,000)</u>
Change in Net Position	<u>\$ (414,461)</u>	<u>\$ 132,827</u>	<u>\$ (12,522)</u>	<u>\$ 5,986</u>	<u>\$ (288,170)</u>
Total Net Assets - January 1	<u>\$ (902,281)</u>	<u>\$ 187,452</u>	<u>\$ 87,740</u>	<u>\$ 21,657</u>	<u>\$ (605,432)</u>
Total Net Assets - December 31	<u>\$ (1,316,742)</u>	<u>\$ 320,279</u>	<u>\$ 75,218</u>	<u>\$ 27,643</u>	<u>\$ (893,602)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds
	Water Funds	Electric Funds	Sewer Funds	Sanitation	
<u>Cash Flows from Operating Activities:</u>					
Receipts from Customers and Users	\$ 318,161	\$ 1,979,407	\$ 107,175	\$ 181,809	\$ 2,586,552
Payments to Suppliers	(932,757)	(1,547,055)	(90,071)	(175,823)	(2,745,706)
Payments to Employees	(87,607)	(84,994)	(25,378)	-	(197,979)
Net Cash Provided (Used) by Operating Activities	<u>\$ (702,203)</u>	<u>\$ 347,358</u>	<u>\$ (8,274)</u>	<u>\$ 5,986</u>	<u>\$ (357,133)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Miscellaneous Revenue (Expense)	\$ 521	\$ (120)	\$ 169	\$ -	\$ 570
Grants	582,640	-	-	-	582,640
Cash Overdraft Position Assumed to be Financed	126,342	-	-	-	126,342
Transfers from Other Funds	47,474	-	-	-	47,474
Transfers to Other Funds	(52,474)	(190,000)	(5,000)	-	(247,474)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ 704,503</u>	<u>\$ (190,120)</u>	<u>\$ (4,831)</u>	<u>\$ -</u>	<u>\$ 509,552</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Purchases and Construction of Capital Assets	\$ (283,075)	\$ -	\$ -	\$ -	\$ (283,075)
Issuance of Capital Debt	263,611	-	-	-	263,611
Principal Paid on Capital Debt	(53,000)	(115,000)	-	-	(168,000)
Interest Paid on Capital Debt	(8,679)	(25,673)	-	-	(34,352)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (81,143)</u>	<u>\$ (140,673)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (221,816)</u>
<u>Cash Flows from Investing Activities:</u>					
Purchases, Sales & Maturities of Investments	\$ (3,079)	\$ 57,904	\$ 2,234	\$ -	\$ 57,059
Interest Income	1,994	1,163	583	-	3,740
Net Cash Provided (Used) by Investing Activities	<u>\$ (1,085)</u>	<u>\$ 59,067</u>	<u>\$ 2,817</u>	<u>\$ -</u>	<u>\$ 60,799</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (79,928)</u>	<u>\$ 75,632</u>	<u>\$ (10,288)</u>	<u>\$ 5,986</u>	<u>\$ (8,598)</u>
Cash and Cash Equivalents, January 1	<u>\$ 79,928</u>	<u>\$ 134,740</u>	<u>\$ 34,616</u>	<u>\$ 21,657</u>	<u>\$ 270,941</u>
Cash and Cash Equivalents, December 31	<u>\$ -</u>	<u>\$ 210,372</u>	<u>\$ 24,328</u>	<u>\$ 27,643</u>	<u>\$ 262,343</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	<u>\$ (702,862)</u>	<u>\$ 347,457</u>	<u>\$ (8,274)</u>	<u>\$ 5,986</u>	<u>\$ (357,693)</u>
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>					
Change in Assets and Liabilities:					
Benefits Payable	\$ 659	\$ -	\$ -	\$ -	\$ 659
Other Assets	-	(99)	-	-	(99)
Net Cash Provided (Used) by Operating Activities	<u>\$ (702,203)</u>	<u>\$ 347,358</u>	<u>\$ (8,274)</u>	<u>\$ 5,986</u>	<u>\$ (357,133)</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF HILLSBORO  
Hillsboro, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Hillsboro. 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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Hillsboro to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Hillsboro.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and the component unit of the City of Hillsboro. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the city's funds including its blended component units. 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 and enterprise funds are aggregated and reported as nonmajor funds.

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

The city reports the following major governmental funds:

*General 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.

*Highway Tax/Streets Fund.* This fund is used to account for taxes received for streets and highways and for repair and maintenance projects on them. The primary revenue source in this fund is restricted grants.

*City Sales Tax Fund.* This fund accounts for sales tax money for the city. The primary revenue source in this fund includes restricted sales tax dollars.

*Capital Projects Funds.* This fund accounts for the accumulation of funds for various capital improvements to city properties. The primary revenue source in this fund is restricted grants.

*Debt Service Funds.* Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The City reports the following major enterprise funds:

*Water Funds.* This fund is used to account for customer receipts and payments for water fees and construction costs of various water projects.

*Electric Funds.* This fund is used to account for customer receipts and payments for electric fees, as well as the payment of long-term debt principal, interest, and related costs for electrical purposes.

*Sewer Funds.* This fund is used to account for customer receipts and payments for sewer fees and costs related to Kingman Sewer Addition.

*Sanitation Fund.* This fund is used to account for customer receipts and payments for sanitation fees.

### C. Measurement Focus and Basis of Accounting

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

#### MEASUREMENT FOCUS

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

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

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

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

#### Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, and business-type 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 in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the city’s policy to use restricted resources first, then unrestricted resources as they are needed.

#### D. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of highly liquid investments with an original maturity of three months or less (money markets). Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

The investments of the City at December 31, 2012 and 2011 consist of certificates of deposit stated at cost.

#### E. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

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

***Major Special Revenue Fund Purposes & Revenue Sources:***

Purposes and major revenue sources of the major special revenue funds (capital improvements funds, sales tax economic development fund, and revolving loan fund) are disclosed in more detail in Note 1B in the discussion of major funds.

***GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions***

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

<b><i>CLASSIFICATION</i></b>	<b><i>DEFINITION</i></b>	<b><i>EXAMPLES</i></b>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables (loans), endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

City of Hillsboro had restricted, committed, and unassigned fund balances reported in the balance sheet at December 31, 2012 and 2011.

Restricted Fund Balances – consist of the following items at December 31, 2012 and 2011:

Restricted fund balances are shown by primary function on the balance sheet for debt service, public works, sales tax/economic development, culture & recreation, capital improvements, emergency, and other purposes (reported in the other governmental funds). Restricted fund balances are restricted by enabling legislation (primarily state law for various tax levies) and by outside 3<sup>rd</sup> parties (State & Federal governments for various grants & reimbursements and bond indentures).

Special Revenue Funds – Restricted & Committed Fund Balances:

- (a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:
  - Restricted tax levies – includes fund balances for various tax levies other than the general fund.
  - Restricted grants/reimbursements – primarily includes disaster type grants in various special revenue funds, and other grant funds.
- (b) Committed fund balances (special revenue funds) – committed by governing board city council action;
  - Committed in special revenue funds for various armory operations, MSCC rental, CDLF – wholesale foods, and recreation district;

**Net Position:**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Prior to GASB 63, amounts were reported as equity on the statement of net assets in two primary categories (restricted and unrestricted). Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in two primary categories (restricted and unrestricted), outlined in further detail as follows:

Restrictions of net position shown in the statement of net position are due to restricted tax levies, restricted Federal & State grants/reimbursements, and restricted amounts for unspent bond proceeds reported in debt service and capital projects funds. Additionally, restricted net position is shown in the statement of net position by primary function as fund balances are shown in the balance sheet, and is restricted for debt service, public works, job/economic development, culture & recreation, emergency, and other purposes.

Unrestricted net position consists of activity primarily related to the general fund and negative capital projects fund amounts at year-end. The unrestricted net position is available to meet the City's ongoing obligations

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

**BUDGET AMENDMENTS**

The city's governing board approved the following amendments to the city budget in 2012:

	<b>REVENUES/TRANSFERS/FINANCING SOURCES</b>		
	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds:</b>			
<b><u>Major Funds</u></b>			
General Fund	\$379,613	\$ 71,936	\$451,549
Highway Tax Fund	185,500	48,344	233,844
Sales Tax	251,000	50,025	301,025
<b><u>Capital Project Funds</u></b>			
Capital Projects	5,625	2,114	7,739
2006-1 2007 Street Project	-	369,396	369,396
<b><u>Debt Service Funds</u></b>			
Riverbend	101,700	598,993	700,693
2008 Highway 200	155,501	2,874	158,375
2007 Street Project Debt Retirement	312,501	5,890	318,391
<b><u>Nonmajor Funds</u></b>			
Social Security Fund	33,000	507	33,507
Emergency	76	11,948	12,024
Planning - Zoning	740	21	761
Armory	14,200	8,350	22,550
MSCC	6,000	75	6,075
Forestry	1,600	206	1,806
CDLF-Wholesale Foods	-	6,329	6,329
Recreation District	9,550	2,194	11,744

	<b>EXPENDITURES AND TRANSFERS OUT</b>		
	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds:</b>			
<b><u>Major Funds:</u></b>			
General Fund	\$339,308	\$ 37,682	\$376,990
Sales Tax	220,000	15,470	235,470
<b><u>Capital Project Funds</u></b>			
Capital Projects	3,800	85	3,885
2006-1 2007 Street Project	(196,424)	196,424	-
<b><u>Debt Service Funds</u></b>			
Project 96-2 & 96-3	-	481	481
Project 98-1	-	7,191	7,191
Riverbend	104,357	588,124	692,481
2008 Highway 200	85,060	14,522	99,582
2007 Street Project Debt Retirement	(82,502)	362,144	279,642
<b><u>Nonmajor Funds</u></b>			
Prairie View	124,742	41	124,783
Social Security Fund	30,000	1,522	31,522
City Share of Specials	24,902	98	25,000
CDLF-Wholesale Foods	-	6,098	6,098

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

The city's governing board approved the following amendments to the city budget in 2011:

	<b>REVENUES/TRANSFERS/FINANCING SOURCES</b>		
	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds:</b>			
<b>Major Funds:</b>			
General Fund	\$364,410	\$87,582	\$451,992
Highway Tax Fund	158,500	62,129	220,629
<b>Capital Project Funds</b>			
Capital Projects	5,620	42,894	48,514
<b>Debt Service Funds</b>			
Project 98-1	48,523	7,041	55,564
2006 Water Main	107,047	164	107,211
2007 Street Project Debt Retirement	312,775	32,676	345,451
<b>Nonmajor Funds</b>			
Social Security Fund	30,000	394	30,394
Planning - Zoning	750	10	760
Cemetery	11,968	4,385	16,353
Recreation District	9,550	1,846	11,396

	<b>EXPENDITURES AND TRANSFERS OUT</b>		
	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds:</b>			
<b>Major Funds:</b>			
General Fund	\$327,471	\$45,672	\$373,143
Highway Tax Fund	158,500	6,223	164,723
<b>Capital Project Funds</b>			
2006-1 2007 Street Project	-	1,560	1,560
<b>Debt Service Funds</b>			
Project 96-2 & 96-3	5,452	221	5,673
Project 98-1	-	48,373	48,373
Riverbend	102,252	160	102,412
<b>Nonmajor Funds</b>			
City Share of Specials	22,000	294	22,294
Armory	19,500	4,939	24,439
Mosquito Control	11,600	3,104	14,704
Recreation District	9,538	551	10,089

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

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

## CITY OF HILLSBORO

### Notes to the Financial Statements – Continued

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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 investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by a other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2012, the city's carrying amount of deposits was \$1,090,947 and the bank balances totaled \$1,573,405. Of the bank balances, \$795,658 was covered by Federal Depository Insurance. The remaining balances totaling \$774,747 were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2011, the city's carrying amount of deposits was \$2,015,273 and the bank balances totaled \$2,077,783. Of the bank balances, \$819,566 was covered by Federal Depository Insurance. The remaining balances totaling \$1,258,217 were 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:

- (a) 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.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

#### Investments:

As of December 31, 2012 and 2011, the City held certificates of deposit with maturities in excess of 3 months in the amount of \$300,000 and \$300,000, respectively, which are all considered investments.

#### Interest Rate Risk:

The city doesn't have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

#### Concentration of Credit Risk:

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

NOTE 4: PROPERTY TAXES
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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.

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

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

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

**NOTE 5: DUE TO / FROM OTHER FUNDS**

The composition of due to and due from other funds as of December 31, 2012 are as follows:

<b>Due From Fund</b>	<b>Due To Fund</b>	<b>Amount</b>
General Fund	Social Security	\$ 98
City Sales Tax Fund	Water Funds	169,940
Debt Service Funds	Capital Project Funds	14,476
Electric Funds	Water Funds	833,216
Sewer Funds	Water Funds	307,650
Sanitation Fund	Water Funds	35,869
	<b>Total</b>	<b>\$1,361,249</b>

The composition of due to and due from other funds as of December 31, 2011 are as follows:

<b>Due From Fund</b>	<b>Due To Fund</b>	<b>Amount</b>
General Fund	Social Security	\$ 2,082
General Fund	Armory	4,491
Debt Service Funds	Capital Project Funds	211,302
Electric Funds	Water Funds	126,342
	<b>Total</b>	<b>\$344,217</b>

The composition of due to and due from other funds is related to negative cash fund balances in various major funds for governmental and business type activities.

**NOTE 6: TRANSFERS**

The following is a summary of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2012:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Governmental Funds</b>		
<u>Major Funds</u>		
General Fund	\$131,673	\$ 7,673
Highway Tax/Streets	85,000	5,000
City Sales Tax Fund	-	62,000
Capital Projects	387,068	1,800
Debt Service	20,000	367,068
<b>Nonmajor Funds:</b>		
Cemetery	3,800	-
Armory Operations	11,000	-
Main Street Community Center	5,000	-
<b>Enterprise Funds</b>		
<u>Major Funds</u>		
Water Funds	4,562	9,562
Electric Funds	145,000	335,000
Sewer Funds	-	5,000
<b>Total Transfers</b>	<b>\$793,103</b>	<b>\$793,103</b>

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

The following is a summary of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2011:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Governmental Funds</b>		
<u>Major Funds</u>		
General Fund	\$172,373	\$ 48,373
Highway Tax/Streets	85,000	5,000
City Sales Tax Fund	-	57,000
Capital Projects	68,373	1,800
Debt Service	20,000	48,373
<b>Nonmajor Funds:</b>		
Cemetery	3,800	-
Armory Operations	11,000	-
<b>Enterprise Funds</b>		
<u>Major Funds</u>		
Water Funds	47,474	52,474
Electric Funds	-	190,000
Sewer Funds	-	5,000
<b>Total Transfers</b>	<b>\$408,020</b>	<b>\$408,020</b>

**NOTE 7: LONG-TERM LIABILITIES**

During the years ended December 31, 2012 and 2011, the following changes occurred in long-term liabilities of the city:

Governmental Activities:

<b>Governmental Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Special Assessment Bonds	\$4,810,000	\$605,000	\$ 970,000	\$4,445,000	\$400,000
Revolving Loan Payable	1,214,478	-	95,000	1,119,478	79,000
<b>Total Governmental Activities</b>	<b>\$6,024,478</b>	<b>\$605,000</b>	<b>\$1,065,000</b>	<b>\$5,564,478</b>	<b>\$479,000</b>

<b>Governmental Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Special Assessment Bonds	\$5,170,000	\$ -	\$360,000	\$4,810,000	\$380,000
Revolving Loan Payable	1,306,478	-	92,000	1,214,478	77,000
<b>Total Governmental Activities</b>	<b>\$6,476,478</b>	<b>\$ -</b>	<b>\$452,000</b>	<b>\$6,024,478</b>	<b>\$457,000</b>

Business-Type Activities (Proprietary Funds):

<b>Business-Type Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Revenue Bonds Payable	\$1,729,741	\$802,938	\$169,679	\$2,363,000	\$120,000

<b>Business-Type Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Revenue Bonds Payable	\$1,634,129	\$263,612	\$168,000	\$1,729,741	\$120,000

**CITY OF HILLSBORO**

## Notes to the Financial Statements – Continued

SPECIAL ASSESSMENT BONDS

\$2,865,000 Special Assessment Bonds of 2008 due in annual installments of \$165,000 to \$230,000 through May 2022; interest at 3.95% to 4.5%.	\$2,165,000
\$1,230,000 Special Assessment Bonds of 2008-B due in annual installments of \$70,000 to \$120,000 through May 2022; interest at 3.85% to 4.4%.	1,010,000
\$785,000 Special Assessment Bonds of 2010 due in annual installments of \$40,000 to \$65,000 through May 2024; interest at 3.5% to 4.75%.	665,000
\$605,000 Special Assessment Bonds of 2012 due in annual installments of \$85,000 to \$90,000 through May 2019; interest at 0.65% to 1.5%.	<u>605,000</u>
Total Special Assessment Bonds	<u>\$4,445,000</u>

STATE REVOLVING FUND LOANS

\$1,150,563 Drinking Water Revolving Improvement Bonds of 2007 due in annual installments of \$70,563 to \$95,000 through September 2021; interest at 2.5%.	\$ 783,000
\$388,478 Drawdown for the Highway 200 project, issued in 2010. No set payment schedule, interest at .5 to 2.5%. Note: the IRS is subsidizing part of each interest payment.	<u>336,478</u>
Total State Revolving Fund Loans	<u>\$1,119,478</u>
Total Governmental Activities	<u>\$5,564,478</u>

Special assessment bond debt service requirements to maturity are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 400,000	\$164,118
2014	410,000	150,555
2015	430,000	136,201
2016	450,000	120,855
2017	465,000	104,306
2018 - 2022	2,160,000	257,151
2023 - 2027	130,000	6,175
Totals	<u>\$4,445,000</u>	<u>\$939,361</u>

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

Drinking Water Improvement Bonds of 2007 debt service requirements to maturity are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 79,000	\$ 19,575
2014	81,000	17,600
2015	83,000	15,575
2016	85,000	13,500
2017	87,000	11,375
2018 - 2022	368,000	23,250
<b>Totals</b>	<b>\$783,000</b>	<b>\$100,875</b>

**REVENUE BONDS**

The city issues bonds where the city pledges income derived from the operations to pay debt service. The proceeds of the bonds are used to finance various capital improvement projects.

**Business-Type Activities:**

\$1,400,000 Refunding Electric Revenue bonds of 2003 due in annual installments of \$110,000 to \$135,000 to 2016 with interest of 3.5% to 4.5%.	\$ 420,000
\$1,310,679 Drawdown for the Water Treatment Plant, issued in 2010. No set payment schedule, interest at .5 to 2.5%.	1,208,000
\$735,000 Refunding Improvement bonds of 2012-B due in annual installments of \$40,000 to \$60,000 to May 2028 with interest of 1.0% to 2.75%.	<u>735,000</u>
Total Business-Type Activities	<u>\$2,363,000</u>
Total Revenue Bonds	<u>\$1,155,000</u>

Revenue bond debt service requirements to maturity are as follows:

<b>BUSINESS-TYPE ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 160,000	\$ 30,025
2014	170,000	24,602
2015	175,000	18,504
2016	75,000	14,380
2017	45,000	13,193
2018 - 2022	240,000	55,168
2023 - 2027	290,000	27,966
<b>Totals</b>	<b>\$1,155,000</b>	<b>\$183,838</b>

**NOTE 8: PENSION PLAN**

The City of Hillsboro provides a retirement plan for City employees. The profit-sharing plan is a 401K defined contribution plan in which the City contributes up to 8% of gross salaries for each eligible employee. An employee's contribution can be any amount less than or equal to the amount allowed by the Federal Government. Contributions are determined on base salary and exclude any overtime or bonuses earned by employees. The plan uses the hour of service method. To initially be eligible for the plan, the employee must complete one year of service and at least 21 years old. Additionally, the employee must be credited with 1,000 hours of service in the twelve-month period beginning with the first day of work and ending on the anniversary date of the first day of work. An employee must have 1,000 hours of service in any plan year to remain eligible. Up to 501 hours of leave in any plan year may be counted toward hours of service. A break in service is considered when the employee is not credited with or paid for at least 500 hours of service. Once eligibility requirements are met for plan participation, an employee begins actual participation in the plan on the first day of the month coinciding with or next following the date the requirements were met. The employee is subject to a vesting schedule based on years of service. A deduction is made monthly and forwarded to the plan account, which is maintained by Northern Capital Trust. Upon termination of employment, the employee will receive his or her vested portion of the contribution. The city's share of pension costs for the years ended December 31, 2012, 2011 and 2010 were \$24,543, \$22,249, and \$23,972, respectively.

**NOTE 9: CONDUIT DEBT****COMMUNITY DEVELOPMENT BLOCK GRANTS**

From time to time, the city has obtained Community Development Block Grants (CBDG) to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The grants are secured by property financed and are payable solely from the payments received on the underlying mortgage grants. Upon repayment of the grants, ownership of the acquired facilities transfers to the private-sector entity served by the grant. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the grants. Accordingly, the grants are not reported as liabilities in the accompanying financial statements.

As of December 31, 2012, there were two Community Development Block Grants outstanding, with an aggregate principal amount payable of \$78,403.

**NOTE 10: RISK MANAGEMENT**

The City of Hillsboro is exposed to various risks of loss related 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 (NDRIF), 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 NDRIF for its general liability, auto, and public assets insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and \$1,476,413 for public assets coverage.

**CITY OF HILLSBORO**

## Notes to the Financial Statements – Continued

The City of Hillsboro 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 two million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$1,600,000 for the city employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City has workers compensation with the North Dakota Workforce Safety and Insurance. The city provides health insurance coverage to all full time employees.

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

**NOTE 11: FUND DEFICITS**

The following funds were in a deficit position at December 31, 2012 and 2011:

Fund Name	Balance	
	2012	2011
<b>Governmental Funds</b>		
<u>Major Funds:</u>		
Capital Projects	\$ (14,476)	\$(211,302)
<u>Nonmajor Funds:</u>		
Social Security	(98)	(2,082)
Armory Operations	-	(4,691)
<b>Enterprise Funds</b>		
Water Funds	(1,346,675)	(127,001)

**NOTE 12: SUBSEQUENT EVENTS**

In February of 2013, the City of Hillsboro approved the Resolution providing for the issuance of \$3,000,000 Water Treatment Bonds of 2013. The purpose of these bonds is to finance the construction of a water treatment plant.

**NOTE 13: DEBT DEFEASANCES**

At the February 6, 2012 board meeting, the Hillsboro City County Commission moved to refund two bond issues to obtain interest savings and realize an economic gain.

The city issued Refunding Improvement Bonds of 2012 totaling \$605,000 with an effective true interest rate of 1.56% to refund the remaining Improvement Bonds of 2004 for a total cost saving of \$68,311 and a net present value savings (economic gain) of \$63,744.

CITY OF HILLSBORO  
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
GENERAL FUND  
For the Years Ended December 31, 2012 and 2011

	2012				2011			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>								
Taxes	\$ 98,000	\$ 98,000	\$ 98,647	\$ 647	\$ 97,000	\$ 97,000	\$ 99,738	\$ 2,738
Licenses, Permits and Fees	19,584	19,584	21,193	1,609	20,210	20,210	23,377	3,167
Charges for Services	12,350	12,350	13,964	1,614	12,350	12,350	12,142	(208)
Intergovernmental	99,000	99,000	162,308	63,308	82,600	117,565	117,321	(244)
Fines, Forfeitures and Penalties	950	950	855	(95)	350	350	170	(180)
Interest	4,000	4,000	576	(3,424)	-	-	-	-
Miscellaneous	93,664	93,664	30,005	(63,659)	27,900	27,900	26,871	(1,029)
<b>Total Revenues</b>	<b>\$ 327,548</b>	<b>\$ 327,548</b>	<b>\$ 327,548</b>	<b>\$ -</b>	<b>\$ 240,410</b>	<b>\$ 275,375</b>	<b>\$ 279,619</b>	<b>\$ 4,244</b>
<u>Expenditures:</u>								
Current:								
General Government	\$ 136,345	\$ 143,891	\$ 143,891	\$ -	\$ 127,621	\$ 127,621	\$ 136,033	\$ (8,412)
Public Safety	142,500	156,877	156,089	788	138,500	138,500	120,481	18,019
Culture and Recreation	62,350	71,222	71,222	-	56,350	56,350	61,862	(5,512)
Other	5,000	5,000	5,000	-	5,000	5,000	6,394	(1,394)
<b>Total Expenditures</b>	<b>\$ 346,195</b>	<b>\$ 376,990</b>	<b>\$ 376,202</b>	<b>\$ 788</b>	<b>\$ 327,471</b>	<b>\$ 327,471</b>	<b>\$ 324,770</b>	<b>\$ 2,701</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (18,647)	\$ (49,442)	\$ (48,654)	\$ 788	\$ (87,061)	\$ (52,096)	\$ (45,151)	\$ 6,945
<u>Other Financing Sources (Uses):</u>								
Transfers In	\$ 124,000	\$ 124,000	\$ 131,673	\$ 7,673	\$ 124,000	\$ 176,617	\$ 172,373	\$ (4,244)
Transfers Out	-	-	(7,673)	(7,673)	-	(45,672)	(48,373)	(2,701)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 124,000</b>	<b>\$ 124,000</b>	<b>\$ 124,000</b>	<b>\$ -</b>	<b>\$ 124,000</b>	<b>\$ 130,945</b>	<b>\$ 124,000</b>	<b>\$ (6,945)</b>
<b>Net Change in Fund Balances</b>	<b>\$ 105,353</b>	<b>\$ 74,558</b>	<b>\$ 75,346</b>	<b>\$ 788</b>	<b>\$ 36,939</b>	<b>\$ 78,849</b>	<b>\$ 78,849</b>	<b>\$ -</b>
Fund Balances - January 1	\$ 65,334	\$ 65,334	\$ 65,334	\$ -	\$ (13,515)	\$ (13,515)	\$ (13,515)	\$ -
<b>Fund Balances - December 31</b>	<b>\$ 170,687</b>	<b>\$ 139,892</b>	<b>\$ 140,680</b>	<b>\$ 788</b>	<b>\$ 23,424</b>	<b>\$ 65,334</b>	<b>\$ 65,334</b>	<b>\$ -</b>

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF HILLSBORO  
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
HIGHWAY TAX/STREETS FUND  
For the Years Ended December 31, 2012 and 2011

	2012				2011			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>								
Intergovernmental	\$ 100,000	\$ 135,796	\$ 148,843	\$ 13,047	\$ 73,000	\$ 73,000	\$ 135,479	\$ 62,479
Miscellaneous Revenue	500	13,047	-	(13,047)	500	500	150	(350)
<b>Total Revenues</b>	<b>\$ 100,500</b>	<b>\$ 148,843</b>	<b>\$ 148,843</b>	<b>\$ -</b>	<b>\$ 73,500</b>	<b>\$ 73,500</b>	<b>\$ 135,629</b>	<b>\$ 62,129</b>
<b>Expenditures:</b>								
<b>Current:</b>								
Public Works	\$ 176,995	\$ 176,995	\$ 171,477	\$ 5,518	\$ 153,500	\$ 159,723	\$ 159,723	\$ -
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (76,495)</b>	<b>\$ (28,152)</b>	<b>\$ (22,634)</b>	<b>\$ 5,518</b>	<b>\$ (80,000)</b>	<b>\$ (86,223)</b>	<b>\$ (24,094)</b>	<b>\$ 62,129</b>
<b>Other Financing Sources (Uses):</b>								
Transfers in	\$ 85,000	\$ 85,000	\$ 85,000	\$ -	\$ 85,000	\$ 85,000	\$ 85,000	\$ -
Transfers Out	-	-	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	-
<b>Total Other Financing Sources and Uses</b>	<b>\$ 85,000</b>	<b>\$ 85,000</b>	<b>\$ 80,000</b>	<b>\$ (5,000)</b>	<b>\$ 80,000</b>	<b>\$ 80,000</b>	<b>\$ 80,000</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 8,505</b>	<b>\$ 56,848</b>	<b>\$ 57,366</b>	<b>\$ 518</b>	<b>\$ -</b>	<b>\$ (6,223)</b>	<b>\$ 55,906</b>	<b>\$ 62,129</b>
<b>Fund Balances - January 1</b>	<b>\$ 130,297</b>	<b>\$ 130,297</b>	<b>\$ 130,297</b>	<b>\$ -</b>	<b>\$ 74,391</b>	<b>\$ 74,391</b>	<b>\$ 74,391</b>	<b>\$ -</b>
<b>Fund Balances - December 31</b>	<b>\$ 138,802</b>	<b>\$ 187,145</b>	<b>\$ 187,663</b>	<b>\$ 518</b>	<b>\$ 74,391</b>	<b>\$ 68,168</b>	<b>\$ 130,297</b>	<b>\$ 62,129</b>

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF HILLSBORO  
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
SALES TAX FUND  
For the Years Ended December 31, 2012 and 2011

	2012				2011			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>								
Taxes	\$ 250,000	\$ 300,025	\$ 300,590	\$ 565	\$ 250,000	\$ 250,000	\$ 242,482	\$ (7,518)
Interest income	1,000	1,000	432	(568)	2,000	2,000	837	(1,163)
<b>Total Revenues</b>	<b>\$ 251,000</b>	<b>\$ 301,025</b>	<b>\$ 301,022</b>	<b>\$ (3)</b>	<b>\$ 252,000</b>	<b>\$ 252,000</b>	<b>\$ 243,319</b>	<b>\$ (8,681)</b>
<u>Expenditures:</u>								
Current:								
Economic Development	\$ 158,000	\$ 173,470	\$ 173,467	\$ 3	\$ 139,500	\$ 139,500	\$ 150,388	\$ (10,888)
Excess (Deficiency) of Revenues Over Expenditures	\$ 93,000	\$ 127,555	\$ 127,555	\$ -	\$ 112,500	\$ 112,500	\$ 92,931	\$ (19,569)
<u>Other Financing Sources (Uses):</u>								
Transfers out	\$ (62,000)	\$ (62,000)	\$ (62,000)	\$ -	\$ (75,000)	\$ (75,000)	\$ (57,000)	\$ 18,000
<b>Net Change in Fund Balances</b>	<b>\$ 31,000</b>	<b>\$ 65,555</b>	<b>\$ 65,555</b>	<b>\$ -</b>	<b>\$ 37,500</b>	<b>\$ 37,500</b>	<b>\$ 35,931</b>	<b>\$ (1,569)</b>
Fund Balances - January 1	\$ 315,038	\$ 315,038	\$ 315,038	\$ -	\$ 279,107	\$ 279,107	\$ 279,107	\$ -
<b>Fund Balances - December 31</b>	<b>\$ 346,038</b>	<b>\$ 380,593</b>	<b>\$ 380,593</b>	<b>\$ -</b>	<b>\$ 316,607</b>	<b>\$ 316,607</b>	<b>\$ 315,038</b>	<b>\$ (1,569)</b>

The accompanying required supplementary information notes are an integral part of this schedule.

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CITY OF HILLSBORO  
Hillsboro, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2012 and 2011

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information:

- The city commission adopts an “appropriated budget” on the modified cash basis of accounting.
- Annually on or before September tenth the city prepares a preliminary budget. NDCC 40-40-04
- The preliminary budget includes the estimated revenues and appropriations for the general fund, each special revenue fund and each debt service fund of the city. NDCC 40-40-05
- The city commission shall meet and hear any and all protests or objections to the items or amounts set forth in the preliminary budget. At the hearing, the city commission shall make any changes in the items or amounts shown in the preliminary budget. The final budget is prepared which includes a summary of the amounts levied for each fund and the total amount levied. NDCC 40-40-08
- The city commission, on or before October 7th, the final budget is completed. NDCC 40-40-09
- Each budget is controlled by the city auditor at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

**NOTE 2: EXPENDITURES IN EXCESS OF BUDGET**

During fiscal year 2011, City of Hillsboro had the following fund expenditures in excess of budgeted amounts:

	<b>Budget</b>	<b>Actual</b>	<b>Excess</b>
<b>Special Revenue Fund:</b>			
City Sales Tax	\$139,500	\$150,388	\$10,888

No remedial action is anticipated or required regarding this excess expenditures.

CITY OF HILLSBORO  
Hillsboro, North Dakota

SCHEDULE OF FUND ACTIVITY  
ARISING FROM CASH TRANSACTIONS-Cash Amounts by Fund  
For the Year Ended December 31, 2012

	Balance 1-1-12	Receipts	Transfers In	Debt Proceeds	Transfers Out	Disbursements	Balance 12-31-12
<b>Major Governmental Funds:</b>							
General Fund	\$ 65,333.92	\$ 327,548.51	\$ 131,672.59	\$ -	\$ 7,672.59	\$ 376,202.64	\$ 140,679.79
Highway Tax/Streets	130,296.91	148,843.50	85,000.00	-	5,000.00	171,477.42	187,662.99
City Sales Tax Fund	315,037.91	301,025.23	-	-	62,000.00	173,469.75	380,593.39
Capital Projects	(211,301.91)	10,066.33	387,068.47	-	1,800.00	198,508.50	(14,475.61)
Debt Service	795,226.95	1,285,156.98	20,000.00	-	367,068.47	1,301,843.07	431,472.39
<b>Total Major Gov't Funds</b>	<b>\$1,094,593.78</b>	<b>\$2,072,640.55</b>	<b>\$ 623,741.06</b>	<b>\$ -</b>	<b>\$ 443,541.06</b>	<b>\$ 2,221,501.38</b>	<b>\$ 1,125,932.95</b>
<b>Nonmajor Governmental Funds:</b>							
<u>Special Revenue Funds:</u>							
Social Security	\$ (2,081.90)	\$ 33,506.61	\$ -	\$ -	\$ -	\$ 31,522.30	\$ (97.59)
City's Share of Specials	322.07	28,437.98	-	-	-	25,098.18	3,661.87
Emergency	21,647.14	12,023.38	-	-	-	-	33,670.52
Planning and Zoning	213.28	761.00	-	-	-	740.00	234.28
Cemetery	4,650.21	7,047.47	3,800.00	-	-	12,516.55	2,981.13
Armory Operations	(4,691.16)	19,900.00	11,000.00	-	-	20,260.04	5,948.80
Main Street Community Center	12,569.30	1,075.00	5,000.00	-	-	710.00	17,934.30
Forestry	2,355.47	1,805.62	-	-	-	929.12	3,231.97
CDLF - Wholesale Foods	-	6,329.16	-	-	-	6,097.72	231.44
Mosquito Control	47,645.98	15,573.22	-	-	-	905.64	62,313.56
Recreation District	638.33	11,743.61	-	-	-	9,140.00	3,241.94
<b>Total Special Revenue Funds</b>	<b>\$ 83,268.72</b>	<b>\$ 138,203.05</b>	<b>\$ 19,800.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107,919.55</b>	<b>\$ 133,352.22</b>
<b>Total Nonmajor Gov't Funds</b>	<b>\$ 83,268.72</b>	<b>\$ 138,203.05</b>	<b>\$ 19,800.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107,919.55</b>	<b>\$ 133,352.22</b>
<b>Total Governmental Funds</b>	<b>\$1,177,862.50</b>	<b>\$2,210,843.60</b>	<b>\$ 643,541.06</b>	<b>\$ -</b>	<b>\$ 443,541.06</b>	<b>\$ 2,329,420.93</b>	<b>\$ 1,259,285.17</b>
<b>Major Enterprise Funds:</b>							
Water Funds	\$ (127,000.98)	\$4,019,486.19	\$ 4,562.00	\$ 67,938.00	\$ 9,562.00	\$ 5,302,757.39	\$ (1,347,334.18)
Electric Funds	860,278.91	1,891,019.55	145,000.00	-	335,000.00	1,727,984.15	833,314.31
Sewer Funds	75,218.12	119,260.04	-	723,975.00	5,000.00	605,085.70	308,367.46
Sanitation Department	27,643.02	194,993.81	-	-	-	186,768.10	35,868.73
<b>Total Major Enterprise Funds</b>	<b>\$ 836,139.07</b>	<b>\$6,224,759.59</b>	<b>\$ 149,562.00</b>	<b>\$ 791,913.00</b>	<b>\$ 349,562.00</b>	<b>\$ 7,822,595.34</b>	<b>\$ (169,783.68)</b>
<b>Agency Funds</b>							
Airport	\$ -	\$ 9,251.14	\$ -	\$ -	\$ -	\$ 9,251.14	\$ -
<b>Total Reporting Entity</b>	<b>\$2,014,001.57</b>	<b>\$8,444,854.33</b>	<b>\$ 793,103.06</b>	<b>\$ 791,913.00</b>	<b>\$ 793,103.06</b>	<b>\$10,161,267.41</b>	<b>\$ 1,089,501.49</b>

CITY OF HILLSBORO  
Hillsboro, North Dakota

SCHEDULE OF FUND ACTIVITY  
ARISING FROM CASH TRANSACTIONS-Cash Amounts by Fund  
For the Year Ended December 31, 2011

	Balance 1-1-11	Receipts	Transfers In	Debt Proceeds	Transfers Out	Disbursements	Balance 12-31-11
<b>Major Governmental Funds:</b>							
General Fund	\$ (13,515.37)	\$ 279,619.56	\$ 172,372.80	\$ -	\$ 48,372.80	\$ 324,770.27	\$ 65,333.92
Highway Tax/Streets	74,390.81	135,628.63	85,000.00	-	5,000.00	159,722.53	130,296.91
City Sales Tax Fund	279,107.08	243,318.88	-	-	57,000.00	150,388.05	315,037.91
Capital Projects	(244,447.31)	1,523.27	68,372.80	-	1,800.00	34,950.67	(211,301.91)
Debt Service	817,208.45	715,323.99	20,000.00	-	48,372.80	708,932.69	795,226.95
<b>Total Major Gov't Funds</b>	<b>\$ 912,743.66</b>	<b>\$ 1,375,414.33</b>	<b>\$ 345,745.60</b>	<b>\$ -</b>	<b>\$ 160,545.60</b>	<b>\$ 1,378,764.21</b>	<b>\$ 1,094,593.78</b>
<b>Nonmajor Governmental Funds:</b>							
<u>Special Revenue Funds:</u>							
Social Security	\$ (2,990.85)	\$ 30,393.83	\$ -	\$ -	\$ -	\$ 29,484.88	\$ (2,081.90)
City's Share of Specials	831.73	21,784.57	-	-	-	22,294.23	322.07
Emergency	26,499.13	32.01	-	-	-	4,884.00	21,647.14
Planning and Zoning	193.02	760.26	-	-	-	740.00	213.28
Cemetery	(213.25)	12,535.42	3,800.00	-	-	11,471.96	4,650.21
Armory Operations	(2,331.68)	11,080.00	11,000.00	-	-	24,439.48	(4,691.16)
Main Street Community Center	13,360.23	835.00	-	-	-	1,625.93	12,569.30
Forestry	2,402.03	817.63	-	-	-	864.19	2,355.47
Mosquito Control	46,805.05	15,545.37	-	-	-	14,704.44	47,645.98
Recreation District	(668.43)	11,396.24	-	-	-	10,089.48	638.33
<b>Total Special Revenue Funds</b>	<b>\$ 83,886.98</b>	<b>\$ 105,180.33</b>	<b>\$ 14,800.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 120,598.59</b>	<b>\$ 83,268.72</b>
<b>Total Nonmajor Gov't Funds</b>	<b>\$ 83,886.98</b>	<b>\$ 105,180.33</b>	<b>\$ 14,800.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 120,598.59</b>	<b>\$ 83,268.72</b>
<b>Total Governmental Funds</b>	<b>\$ 996,630.64</b>	<b>\$ 1,480,594.66</b>	<b>\$ 360,545.60</b>	<b>\$ -</b>	<b>\$ 160,545.60</b>	<b>\$ 1,499,362.80</b>	<b>\$ 1,177,862.50</b>
<b>Major Enterprise Funds:</b>							
Water Funds	\$ 76,849.32	\$ 903,313.50	\$ 47,474.40	\$ 263,612.00	\$ 52,474.40	\$ 1,365,775.80	\$ (127,000.98)
Electric Funds	842,451.86	1,986,018.52	-	-	190,000.00	1,778,191.47	860,278.91
Sewer Department	87,740.21	107,928.11	-	-	5,000.00	115,450.20	75,218.12
Sanitation Department	21,656.65	181,808.20	-	-	-	175,821.83	27,643.02
<b>Total Major Enterprise Funds</b>	<b>\$ 1,028,698.04</b>	<b>\$ 3,179,068.33</b>	<b>\$ 47,474.40</b>	<b>\$ 263,612.00</b>	<b>\$ 247,474.40</b>	<b>\$ 3,435,239.30</b>	<b>\$ 836,139.07</b>
<b>Agency Funds</b>							
Airport	\$ -	\$ 9,390.05	\$ -	\$ -	\$ -	\$ 9,390.05	\$ -
<b>Total Reporting Entity</b>	<b>\$ 2,025,328.68</b>	<b>\$ 4,659,662.99</b>	<b>\$ 408,020.00</b>	<b>\$ 263,612.00</b>	<b>\$ 408,020.00</b>	<b>\$ 4,934,602.10</b>	<b>\$ 2,014,001.57</b>

STATE AUDITOR

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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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**

***MATERIAL WEAKNESSES IDENTIFIED***

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Independent Auditor's Report

City Commission  
City of Hillsboro  
Hillsboro, North Dakota 58045

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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City of Hillsboro's basic financial statements, and have issued our report thereon dated May 10, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Hillsboro'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 Hillsboro's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hillsboro's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be material weaknesses [2012-01 and 2012-02].

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hillsboro'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 OF HILLSBORO**

**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 – Material Weaknesses Identified - Continued**

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We did note certain matters that we reported to management of the City of Hillsboro in a separate letter dated May 10, 2013.

**The City of Hillsboro’s Response to Findings**

The City of Hillsboro's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The City of Hillsboro'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 result 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.



Robert R. Peterson  
State Auditor

May 10, 2013

CITY OF HILLSBORO  
Hillsboro, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES  
For the Years Ended December 31, 2012 and 2011

**Section I - Summary of Auditor's Results**

Financial Statements

Type of Auditor's Report Issued?

Governmental Activities	Adverse
Business-Type Activities	Adverse
Major Governmental Funds	Unmodified on modified cash basis
Major Business-Type Funds	Adverse
Aggregate Remaining Fund Information	Unmodified on modified cash basis

Internal Control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

**Section II - Financial Statement Findings**

**2012-01 - CAPITAL ASSET RECORDS**

**Condition**

The City of Hillsboro, North Dakota, does not maintain complete capital asset records for the governmental activities, the business-type activities and the major business-type funds.

**Criteria**

Accounting principles generally accepted in the United States of America require the financial statements include capital assets for governmental activities, business-type activities and major business-type funds, net of accumulated depreciation.

**Effect**

The omission of capital assets from the financial statements results in an incomplete presentation of the City of Hillsboro's financial statements and adverse opinions on the city's financial statements for governmental activities, business-type activities and major business-type funds.

**Recommendation**

The city should establish and maintain capital asset records for governmental activities, business-type activities and major business-type funds using historical cost or estimated historical cost and set up and maintain depreciation schedules for these assets. Also detailed capital asset records showing additions and deletions should be maintained.

**Client Response**

We agree with this recommendation. However the board does not concur that it is cost effective to establish capital asset records at this time according to Auditor recommendation.

<b>2012-02 - SEGREGATION OF DUTIES</b>
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**Condition**

The City of Hillsboro, North Dakota has one city auditor and one deputy auditor responsible for accounting functions including maintaining accounting records, reconciling accounts and paying bills.

**Criteria**

Proper internal control over financial reporting and custody of assets dictates that there should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the 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. However, duties should be segregated to the extent possible within the Auditor's office.

**Client Response**

I agree with this finding. It is not feasible at this time due to the number of personnel in the office and cost considerations to add any additional staff.