

AUDIT REPORT

CITY OF HEBRON
Hebron, North Dakota

For the Year Ended December 31, 2019

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HEBRON
Hebron, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2019

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2 - 3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5
Balance Sheet – Modified Cash Basis – Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis	9
Statement of Net Position – Modified Cash Basis – Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds	11
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds	12
Statement of Fiduciary Assets and Liabilities – Modified Cash Basis – Custodial Fund	13
Statement of Changes in Fiduciary Assets and Liabilities – Modified Cash Basis – Custodial Fund	13A
Notes to the Financial Statements	14 - 25
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules – Modified Cash Basis	
General Fund	26
Highway Distribution Fund	27
Emergency Reserve Fund	28
Notes to the Budgetary Comparison Schedules	29
Schedule of Fund Activity Arising from Cash Transactions	30
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	31 - 32
Schedule of Findings and Responses	33 - 34

CITY OF HEBRON
Hebron, North Dakota

CITY OFFICIALS

Grant Walth	Mayor
Harvey Tibor	Council President
Chester Brandt	Council Vice President
Michael Coots	Council Member
Steven Dittus	Council Member
Patrick Mischel	Council Member
Ramon Torres	Council Member
Erin McCutchan	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
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Bismarck, ND 58501
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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hebron
Hebron, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hebron, Hebron, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hebron, Hebron, North Dakota, as of December 31, 2019, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

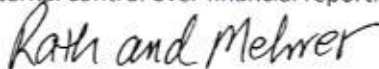
Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

February 7, 2020

CITY OF HEBRON
Hebron North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	287,497.71	504,203.18	791,700.89
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	4,219,265.00	34,408.00	4,253,673.00
Vehicles and Machinery	222,273.00	104,467.00	326,740.00
Total Capital Assets	4,441,538.00	138,875.00	4,580,413.00
Total Assets	4,729,035.71	643,078.18	5,372,113.89
Liabilities:			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loan Payable	20,745.55		20,745.55
Special Assessment Bonds Payable	260,000.00		260,000.00
Revenue Bonds Payable		8,000.00	8,000.00
Due After One Year:			
Bank Loan Payable	117,254.45		
Special Assessment Bonds Payable	2,080,000.00		2,080,000.00
Revenue Bonds Payable		8,000.00	8,000.00
Total Liabilities	2,478,000.00	16,000.00	2,376,745.55
NET POSITION:			
Net Investment in Capital Assets	1,963,538.00	122,875.00	2,086,413.00
Restricted for:			
Debt Service	235,771.62		235,771.62
Special Purposes	132,172.74	233,962.78	366,135.52
Unrestricted	(80,446.65)	270,240.40	189,793.75
Total Net Position	2,251,035.71	627,078.18	2,878,113.89

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

CITY OF HEBRON
Hebron North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2019

	Net (Expense) Revenue and Change in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Functions/Programs					
Primary Government					
<u>Governmental Activities:</u>					
General Government	278,564.56	8,813.07		(269,751.49)	(269,751.49)
Public Safety	54,220.00	20.00	11,815.00	(42,385.00)	(42,385.00)
Streets and Public Works	308,128.79	1,240.00	70,477.93	(236,410.86)	(236,410.86)
Culture and Recreation	38,274.12		2,785.68	(35,488.44)	(35,488.44)
Other	43,071.81			(43,071.81)	(43,071.81)
Interest on Long-Term Debt	51,900.00		328,366.79	276,466.79	276,466.79
Total Governmental Activities	774,159.28	10,073.07	413,445.40	(350,640.81)	(350,640.81)
<u>Business-Type Activities:</u>					
Water	200,275.73	188,618.12		(11,657.61)	(11,657.61)
Sewer	29,277.02	56,767.18		27,490.16	27,490.16
Garbage	102,448.22	100,050.27		(2,397.95)	(2,397.95)
Total Business-Type Activities	332,000.97	345,435.57		13,434.60	13,434.60
Total Primary Government	1,106,160.25	355,508.64	413,445.40	(350,640.81)	13,434.60
<u>General Revenues:</u>					
<u>Taxes:</u>					
Property taxes; levied for general purposes				170,138.83	170,138.83
Property taxes; levied for special purposes				30,349.26	30,349.26
Cigarette taxes				1,966.78	1,966.78
Intergovernmental revenue not restricted to specific programs				57,195.21	57,195.21
Earnings on investments and other revenue				28,798.26	1,242.73
Transfers				64,427.04	(64,427.04)
Total General Revenues and Transfers				352,875.38	(63,184.31)
Change in Net Position				2,234.57	(49,749.71)
Net Position - January 1				2,248,801.14	676,827.89
Net Position - December 31				2,251,035.71	627,078.18

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

CITY OF HEBRON
Hebron, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2019

	Major Funds					Total Governmental Funds
	General	Highway Distribution	Emergency Reserve	Special Assessment Bonds	Other Governmental Funds	
ASSETS:						
Cash and Cash Equivalents		61,191.57	43,352.35	155,324.97	27,628.82	287,497.71
Interfund Receivables				80,446.65		80,446.65
Total Assets	-	61,191.57	43,352.35	235,771.62	27,628.82	367,944.36
LIABILITIES AND FUND BALANCES						
Liabilities:						
Interfund Payables	30,580.51				49,866.14	80,446.65
Fund Balances:						
Restricted for:						
Street and Public Works		61,191.57				61,191.57
Emergency Purposes			43,352.35			43,352.35
City Share of Specials					26,628.82	26,628.82
Debt Service				235,771.62		235,771.62
Other Purposes					1,000.00	1,000.00
Unassigned	(30,580.51)				(49,866.14)	(80,446.65)
Total Fund Balances	(30,580.51)	61,191.57	43,352.35	235,771.62	(22,237.32)	287,497.71
Total Liabilities and Fund Balances	-	61,191.57	43,352.35	235,771.62	27,628.82	367,944.36

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

CITY OF HEBRON
Hebron North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2019

Total Fund Balances for Governmental Funds 287,497.71

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

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

Cost of Capital Assets	6,411,321.00	
Less Accumulated Depreciation	<u>(1,969,783.00)</u>	
Net Capital Assets		4,441,538.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2019 are:

Bank Loan Payable	(138,000.00)	
Special Assessments Bonds Payable	<u>(2,340,000.00)</u>	
Total Long-Term Liabilities		<u>(2,478,000.00)</u>

Total Net Position of Governmental Activities 2,251,035.71

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2019

	Major Funds					Total Governmental Funds
	General	Highway Distribution	Emergency Reserve	Special Assessment Bonds	Other Governmental Funds	
Revenues:						
Taxes	170,138.83		3,969.90		26,379.36	200,488.09
Special Assessments				328,366.79		328,366.79
Licenses, Permits and Fees	8,813.07					8,813.07
Intergovernmental	68,346.00	58,971.93	514.76		4,251.91	132,084.60
Charges for Services		700.00			540.00	1,240.00
Fines and Forfeits	20.00					20.00
Miscellaneous	12,730.59	11,667.08	172.02		16,384.57	40,954.26
Total Revenues	260,048.49	71,339.01	4,656.68	328,366.79	47,555.84	711,966.81
Expenditures:						
Current:						
General Government	229,951.22				37,112.34	267,063.56
Public Safety	40,320.00		13,900.00			54,220.00
Streets and Public Works	14,634.37	97,064.17	143.25			111,841.79
Culture and Recreation	6,920.62				31,353.50	38,274.12
Other					43,071.81	43,071.81
Capital Outlay		172,764.00				172,764.00
Debt Service:						
Principal		27,120.00		255,000.00		282,120.00
Interest and Service Charges				51,900.00		51,900.00
Total Expenditures	291,826.21	296,948.17	14,043.25	306,900.00	111,537.65	1,021,255.28
Excess (Deficiency) of Revenue Over Expenditures	(31,777.72)	(225,609.16)	(9,386.57)	21,466.79	(63,981.81)	(309,288.47)
Other Financing Sources:						
Transfers In					64,427.04	64,427.04
Proceeds from Capital Lease		165,120.00				165,120.00
Total Other Financing Sources	-	165,120.00	-	-	64,427.04	229,547.04
Net Changes in Fund Balances	(31,777.72)	(60,489.16)	(9,386.57)	21,466.79	445.23	(79,741.43)
Fund Balance - January 1	1,197.21	121,680.73	52,738.92	214,304.83	(22,682.55)	367,239.14
Fund Balance - December 31	(30,580.51)	61,191.57	43,352.35	235,771.62	(22,237.32)	287,497.71

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

CITY OF HEBRON
Hebron, 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, 2019

Net Change in Fund Balances - Total Governmental Funds	(79,741.43)
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	172,764.00	
Current Year Depreciation Expense	<u>(207,788.00)</u>	(35,024.00)

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

Debt Proceeds	(165,120.00)	
Repayment of Debt	<u>282,120.00</u>	<u>117,000.00</u>

Change in Net Position of Governmental Activities	<u>2,234.57</u>
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The accompanying notes to the financial statements are an integral part of these financial statements.

CITY OF HEBRON
Hebron, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2019

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Fund
	Water	Sewer	Garbage		
ASSETS					
Current Assets:					
Cash and Cash Equivalents	223,805.24	224,605.99	47,977.38	7,814.57	504,203.18
Noncurrent Assets:					
Capital Assets (net of accumulated depreciation):					
Buildings and Infrastructure		34,408.00			34,408.00
Vehicles and Machinery			104,467.00		104,467.00
Total Noncurrent Assets	-	34,408.00	104,467.00	-	138,875.00
Total Assets	223,805.24	259,013.99	152,444.38	7,814.57	643,078.18
LIABILITIES					
Current Liabilities:					
Revenue Bonds Payable		8,000.00			8,000.00
Noncurrent Liabilities:					
Revenue Bonds Payable		8,000.00			8,000.00
Total Liabilities	-	16,000.00	-	-	16,000.00
NET POSITION					
Net Investment in Capital Assets		18,408.00	104,467.00		122,875.00
Restricted for:					
Water Maintenance	91,973.08				91,973.08
Sewer Maintenance		131,697.37			131,697.37
Sewer Reserve		10,292.33			10,292.33
Unrestricted	131,832.16	82,616.29	47,977.38	7,814.57	270,240.40
Total Net Position	223,805.24	243,013.99	152,444.38	7,814.57	627,078.18

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2019

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Fund
	Water	Sewer	Garbage		
<u>Operating Revenues:</u>					
<u>Charges for Sales and Services:</u>					
Water Charges	171,427.18				171,427.18
Sewer Charges		42,932.13			42,932.13
Garbage Charges			87,407.37		87,407.37
Utility Surcharge	14,064.00	13,835.05			27,899.05
Landfill Fees			9,749.40		9,749.40
Other Charges	2,134.60		2,893.50	992.34	6,020.44
Total Operating Revenues	187,625.78	56,767.18	100,050.27	992.34	345,435.57
<u>Operating Expenses:</u>					
Operation and Maintenance	28,704.37	3,270.42	43,641.23		75,616.02
Salaries	17,415.85	14,598.16	36,990.17		69,004.18
Water Purchase	138,201.74				138,201.74
Utilities	4,506.52	5,819.94			10,326.46
Repairs	11,447.25				11,447.25
Fuel			8,243.46		8,243.46
Depreciation		4,916.00	11,608.00		16,524.00
Total Operating Expenses	200,275.73	28,604.52	100,482.86	-	329,363.11
Operating Income (Loss)	(12,649.95)	28,162.66	(432.59)	992.34	16,072.46
<u>Non-Operating Revenues (Expenses):</u>					
Interest Income	107.16	169.50	241.07		517.73
Miscellaneous Revenues	725.00				725.00
Interest Payment		(672.50)	(1,965.36)		(2,637.86)
Total Non-Operating Revenues (Expenses)	832.16	(503.00)	(1,724.29)	-	(1,395.13)
Income (Loss) Before Transfers	(11,817.79)	27,659.66	(2,156.88)	992.34	14,677.33
Transfer Out	(36,715.04)	(8,597.00)	(19,115.00)		(64,427.04)
Changes in Net Position	(48,532.83)	19,062.66	(21,271.88)	992.34	(49,749.71)
Net Position - January 1	272,338.07	223,951.33	173,716.26	6,822.23	676,827.89
Net Position - December 31	223,805.24	243,013.99	152,444.38	7,814.57	627,078.18

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

CITY OF HEBRON
Hebron North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year ended December 31, 2019

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer	Garbage		
<u>Cash flows from operating activities:</u>					
Receipts from customers	187,625.78	56,767.18	100,050.27	992.34	345,435.57
Payments to suppliers	(182,859.88)	(9,090.36)	(51,884.69)		(243,834.93)
Payments to employees	(17,415.85)	(14,598.16)	(36,990.17)		(69,004.18)
Net cash provided (used) by operating activities	(12,649.95)	33,078.66	11,175.41	992.34	32,596.46
<u>Cash flows from noncapital financing activities:</u>					
Miscellaneous receipts	725.00				725.00
Transfers out	(36,715.04)	(8,597.00)	(19,115.00)		(64,427.04)
Net cash provided (used) by noncapital financing activities	(35,990.04)	(8,597.00)	(19,115.00)	-	(63,702.04)
<u>Cash flows from capital and related financing activities:</u>					
Principal payments		(7,000.00)	(48,126.62)		(55,126.62)
Interest payments		(672.50)	(1,965.36)		(2,637.86)
Net cash provided (used) by capital and related financing activities	-	(7,672.50)	(50,091.98)	-	(57,764.48)
<u>Cash flows from investing activities:</u>					
Interest income	107.16	169.50	241.07		517.73
Net increase in cash and cash equivalents	(48,532.83)	16,978.66	(57,790.50)	992.34	(88,352.33)
Cash and cash equivalents, January 1	272,338.07	207,627.33	105,767.88	6,822.23	592,555.51
Cash and cash equivalents, December 31	223,805.24	224,605.99	47,977.38	7,814.57	504,203.18
 <u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>					
Operating income (Loss)	(12,649.95)	28,162.66	(432.59)	992.34	16,072.46
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense		4,916.00	11,608.00		16,524.00
Net cash provided (used) by operating activities	(12,649.95)	33,078.66	11,175.41	992.34	32,596.46

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Custodial Fund
December 31, 2019

	<u>Custodial Fund</u>
<u>Assets:</u>	
Cash and Cash Equivalents	<u>18,413.62</u>
<u>Liabilities:</u>	
Due to Other Governments	<u>18,413.62</u>

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Changes in Fiduciary Assets and Liabilities
Modified Cash Basis - Custodial Fund
December 31, 2019

	<u>Custodial Fund</u>
<u>Additions:</u>	
Interest Earned	<u>45.97</u>
Net Change in Assets and Liabilities	<u>45.97</u>
Assets and Liabilities - January 1	<u>18,367.65</u>
Assets and Liabilities - December 31	<u><u>18,413.62</u></u>

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

CITY OF HEBRON
Hebron, North Dakota

Notes to the Financial Statements
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

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

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

Emergency Reserve. This fund accounts for a special levy and monies set-aside by the city for the purpose of paying expenditures allowable under NDCC 57-15-48.

Special Assessment Bonds. This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Definitive Improvement Warrants, Series 2016A and 2016B.

The city reports the following major enterprise funds:

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

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

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

The city reports the following type of fiduciary fund:

Custodial Fund. This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's custodial fund is used to account for deposits of the Hebron Business and Industry fund.

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 assets.

Basis of Accounting

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

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

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

D. Cash and Cash Equivalents

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

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial individual cost of

\$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Infrastructure	20 to 75 years
Machinery and Vehicles	10 to 20 Years

F. Compensated Absences

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

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Long-Term Obligations

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

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

H. Fund Equity

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

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

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

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by

state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

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

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

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

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

- Committed
- Assigned
- Unassigned

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

I. Interfund Transactions

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

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

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

J. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2019 the city's carrying amount of deposits was \$810,115 and the bank balance was \$813,925. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$563,925 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2019 the city held certificates of deposit in the amount of \$201,846, which are all considered investments.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2019 are as follows:

	Receivable Fund	Payable Fund
Special Assessment Bonds	80,446.65	
General Fund		30,580.51
Library		13,997.65
Community Hall		30,538.68
Community Center		3,767.90
Hebron Clinic		1,561.91

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	6,059,787			6,059,787
Machinery and Vehicles	184,970	172,764	6,200	351,534
Total	6,244,757	172,764	6,200	6,411,321

Less accumulated depreciation for:

Buildings and Infrastructure	1,662,457	178,065		1,840,522
Machinery and Vehicles	105,738	29,723	6,200	129,261
Total	1,768,195	207,788	6,200	1,969,783

Governmental Activities

Capital Assets, Net	4,476,562	(35,024)		4,441,538
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Balance				Balance
January 1	Increases	Decreases		December 31

Business-type Activities:

Capital assets being depreciated:

Buildings and Infrastructure	262,762			262,762
Machinery and Vehicles	247,336			247,336
Total	510,098			510,098

Less accumulated depreciation for:

Buildings and Infrastructure	223,438	4,916		228,354
Machinery and Vehicles	131,261	11,608		142,869
Total	354,699	16,524		371,223

Business-Type Activities

Capital Assets, Net	155,399	(16,524)		138,875
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Depreciation expense was charged to functions/programs of the city as follows:

Governmental Activities:

General Government	11,501
Streets and Public Works	196,287
Total	207,788

Business-type Activities:

Sewer	4,916
Garbage	11,608
Total	16,524

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2019, the following changes occurred in the liabilities reported in the long-term liabilities of the city:

Outstanding debt at December 31, 2019 consists of the following:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bank Loan Payable		165,120	27,120	138,000	20,746
Special Assessment Bonds Payable	2,595,000		255,000	2,340,000	260,000
Total	2,595,000	165,120	282,120	2,478,000	280,746

Business-Type Activities (Proprietary Funds):

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds	23,000		7,000	16,000	8,000

Governmental Activities:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2019, is as follows:

Bank Loan Payable. The city received funding for the acquisition of a new John Deere loader. Bank loan payable at December 31, 2019 is as follows:

\$165,120 Bank Loan Payable with Dakota Community Bank
due in annual installments of \$27,326.43 through March 1, 2025;
interest is at 5.25%.

138,000.00

The annual requirements to amortize the outstanding bank loan are as follows:

Year Ending <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	20,745.55	6,580.88
2021	21,085.07	6,241.36
2022	22,207.41	5,119.02
2023	23,389.50	3,936.93
2024	24,627.12	2,699.31
2025	25,945.35	1,381.08
Total	<u>138,000.00</u>	<u>25,958.58</u>

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for a street, water and sewer infrastructure project. Special assessment bonds outstanding at December 31, 2019 are as follows:

\$2,829,223 Definitive Improvement Warrant, Series 2016A due in annual installments of \$175,000 to \$230,000 through September 1, 2027; interest is at 1.5%.	1,605,000.00
\$905,000 Definitive Improvement Warrant, Series 2016B due in annual installments of \$85,000 to \$95,000 through September 1, 2027; interest is at 1.5%.	<u>735,000.00</u>
Total Special Assessment Bonds Payable	<u>2,340,000.00</u>

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

Year Ending <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	260,000.00	35,100.00
2021	275,000.00	31,200.00
2022	280,000.00	27,075.00
2023	285,000.00	22,875.00
2024	300,000.00	18,600.00
2025-2029	940,000.00	28,500.00
Total	<u>2,340,000.00</u>	<u>163,350.00</u>

Business-Type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2019 are as follows:

\$122,890 Sewer improvement Revenue Bonds of 2001; due in annual installments of \$7,000 to \$8,000 through September 1, 2021; interest is at 2.5%.

23,000.00

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	8,000.00	400.00
2021	8,000.00	200.00
Total	<u>16,000.00</u>	<u>600.00</u>

Note 7 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2019:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Community Hall	24,975.89	
Hebron Clinic	9,132.68	
Library	16,296.38	
Community Center	14,022.09	
Water		36,715.04
Sewer		8,597.00
Garbage		19,115.00

To subsidize expenditures/eliminate deficit fund balances.

Note 8 DEFICIT FUND BALANCES

The following funds had a deficit balance as of December 31, 2019:

General Fund	(30,580.51)
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Special Revenue Funds

Library	(13,997.65)
Community Hall	(30,538.68)
Community Center	(3,767.90)
Hebron Clinic	(1,561.91)

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

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), 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 NDRF for its general liability, automobile and public assets insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$387,720 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$834,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

CITY OF HEBRON
Hebron, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	271,005.00	271,005.00	170,138.83	(100,866.17)
Licenses, Permits and Fees	8,625.00	8,625.00	8,813.07	188.07
Intergovernmental	51,000.00	51,000.00	68,346.00	17,346.00
Fines and Forfeits	400.00	400.00	20.00	(380.00)
Miscellaneous	3,950.00	3,950.00	12,730.59	8,780.59
Total Revenues	334,980.00	334,980.00	260,048.49	(74,931.51)
<u>Expenditures:</u>				
Current:				
General Government	245,600.00	245,600.00	229,951.22	15,648.78
Public Safety	45,675.00	45,675.00	40,320.00	5,355.00
Streets and Public Works	23,800.00	23,800.00	14,634.37	9,165.63
Culture and Recreation	7,000.00	7,000.00	6,920.62	79.38
Total Expenditures	322,075.00	322,075.00	291,826.21	30,248.79
Net Change in Fund Balances	12,905.00	12,905.00	(31,777.72)	(44,682.72)
Fund Balance - January 1	1,197.21	1,197.21	1,197.21	
Fund Balance - December 31	14,102.21	14,102.21	(30,580.51)	(44,682.72)

CITY OF HEBRON
Hebron, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Highway Distribution Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	50,000.00	50,000.00	58,971.93	8,971.93
Charges for Services	200.00	200.00	700.00	500.00
Miscellaneous	250.00	250.00	11,667.08	11,417.08
Total Revenues	50,450.00	50,450.00	71,339.01	20,889.01
<u>Expenditures:</u>				
Current:				
Streets and Public Works	75,400.00	75,400.00	97,064.17	(21,664.17)
Capital Outlay			172,764.00	(172,764.00)
Debt Service:				
Principal			27,120.00	(27,120.00)
Total Expenditures	75,400.00	75,400.00	296,948.17	(221,548.17)
Excess (Deficiency) of Revenues over Expenditures	(24,950.00)	(24,950.00)	(225,609.16)	(200,659.16)
<u>Other Financing Sources:</u>				
Proceeds from Capital Lease			165,120.00	165,120.00
Net Change in Fund Balances	(24,950.00)	(24,950.00)	(60,489.16)	(35,539.16)
Fund Balance - January 1	121,680.73	121,680.73	121,680.73	
Fund Balance - December 31	96,730.73	96,730.73	61,191.57	(35,539.16)

CITY OF HEBRON
Hebron, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Emergency Reserve Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	3,000.00	3,000.00	3,969.90	969.90
Intergovernmental	400.00	400.00	514.76	114.76
Miscellaneous	460.00	460.00	172.02	(287.98)
Total Revenues	3,860.00	3,860.00	4,656.68	796.68
<u>Expenditures:</u>				
Current:				
Public Safety	5,000.00	5,000.00	13,900.00	(8,900.00)
Streets and Public Works	5,000.00	5,000.00	143.25	4,856.75
Total Expenditures	10,000.00	10,000.00	14,043.25	(4,043.25)
Net Change in Fund Balances	(6,140.00)	(6,140.00)	(9,386.57)	(3,246.57)
Fund Balance - January 1	52,738.92	52,738.92	52,738.92	
Fund Balance - December 31	46,598.92	46,598.92	43,352.35	(3,246.57)

CITY OF HEBRON
HEBRON, North Dakota.

Notes to the Budgetary Comparison Schedules
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the city's budget during the year ended December 31, 2019.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ended December 31, 2019:

Special Revenue Funds

Highway Distribution	221,548.17
Emergency Reserve	4,043.25
City Share of Special Assessments	15,113.72

No remedial action is anticipated or required by the city regarding these excess expenditures.

CITY OF HEBRON
Hebron, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2019

	Balance 1/1/2019	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12/31/2019
Major Governmental Funds						
General Fund	1,197.21	260,048.49			291,826.21	(30,580.51)
Highway Distribution	121,680.73	71,339.01			131,828.17	61,191.57
Emergency Reserve	52,738.92	4,656.68			14,043.25	43,352.35
Special Assessment Bonds	214,304.83	328,366.79			306,900.00	235,771.62
Total Major Governmental Funds	389,921.69	664,410.97	-	-	744,597.63	309,735.03
Non-major Governmental Funds						
Library	(16,296.38)	11,372.94	16,296.38		25,370.59	(13,997.65)
Community Hall	(24,975.89)	6,573.66	24,975.89		37,112.34	(30,538.68)
Community Center	(14,022.09)	2,215.01	14,022.09		5,982.91	(3,767.90)
City Share of Specials	41,744.49	19,998.05			35,113.72	26,628.82
Hebron Clinic	(9,132.68)	6,396.18	9132.68		7,958.09	(1,561.91)
CDBG Funds	-	1,000.00				1,000.00
Total Nonmajor Governmental Funds	(22,682.55)	47,555.84	64,427.04		111,537.65	(22,237.32)
Total Governmental Funds	367,239.14	711,966.81	64,427.04	-	856,135.28	287,497.71
Major Enterprise Funds						
Water Fund:						
Operating	189,581.74	174,393.94		36,715.04	195,428.48	131,832.16
Water Surcharge	82,756.33	14,064.00			4,847.25	91,973.08
Sewer Fund:						
Operating	79,642.18	42,932.13		8,597.00	31,361.02	82,616.29
Sewer Surcharge	117,732.78	13,964.59				131,697.37
Sewer Reserve	10,252.37	39.96				10,292.33
Garbage	105,767.88	100,291.34		19,115.00	138,966.84	47,977.38
Total Major Enterprise Funds	585,733.28	345,685.96	-	64427.04	370,603.59	496,388.61
Nonmajor Enterprise Fund						
Utility Penalty	6,822.23	992.34				7,814.57
Total Enterprise Funds	592,555.51	346,678.30	-	64427.04	370,603.59	504,203.18
Total Primary Government	959,794.65	1,058,645.11	64,427.04	64,427.04	1,226,738.87	791,700.89
Fiduciary Fund						
Custodial Fund						
Hebron Business and Industry	18,367.65	45.97				18,413.62
Total All Funds	978,162.30	1,058,691.08	64,427.04	64,427.04	1,226,738.87	810,114.51

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hebron
Hebron, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hebron, Hebron, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated February 7, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

February 7, 2020

CITY OF HEBRON
Hebron, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2019

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

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

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2019-001 – Segregation of Duties

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

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

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

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

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

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

2. 2019-002- Financial Statement Preparation

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

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

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

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

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

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