



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

City of Hillsboro

Hillsboro, North Dakota

Audit Report for the Years Ended December 31, 2019 and 2018

Client Code: PS49100



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Office of the
State Auditor

CITY OF HILLSBORO

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CITY OF HILLSBORO

City Officials and Audit Personnel
December 31, 2019 and 2018

CITY OFFICIALS

At December 31, 2019

Terry Sando	President
Levi Reese	Vice-President
Lorraine Tibert	Board Member
Mike Kress	Board Member
Dave Sather	Board Member
Matt Mutzenberger	Auditor
Julie Bjorklund	Deputy Auditor
John Juelson	Attorney

At December 31, 2018

Terry Sando	President
Levi Reese	Vice-President
Lorraine Tibert	Board Member
Mike Kress	Board Member
Dave Sather	Board Member
Matt Mutzenberger	Auditor
Julie Bjorklund	Deputy Auditor
John Juelson	Attorney

AUDITOR PERSONNEL

Heath Erickson, CPA	Audit Manager
Brian Hermanson	Audit In-Charge

STATE AUDITOR
Joshua C. Gallion



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INDEPENDENT AUDITOR'S REPORT

Board of Hillsboro Commissioners
City of Hillsboro
Hillsboro, North Dakota

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City of Hillsboro'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 to the financial statements; 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 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

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

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, 2019 and December 31, 2018, and the changes in financial position thereof for the year then ended.

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, 2019 and December 31, 2018 and the respective changes in financial position modified cash basis thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the 2018 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The City of Hillsboro prepares its financial statements 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 of Hillsboro's basic financial statements. The *budgetary comparison schedule* is presented for purposes of additional analysis and are not a required part of the financial statements.

CITY OF HILLSBORO

Independent Auditor's Report – Continued

The *budgetary comparison schedule* is the responsibility of management and were 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. Because of the significance of the matter described above in the *Basis for Adverse Opinions on Governmental Activities, Business-Type Activities, and Major Funds* paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hillsboro's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hillsboro's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 25, 2021

CITY OF HILLSBORO

-Statement of Net Position – Modified Cash Basis

December 31, 2019

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash	\$ 1,698,397	\$ 1,241,665	\$ 2,940,062
Investments	283,496	733,365	1,016,861
Total Assets	<u>\$ 1,981,893</u>	<u>\$ 1,975,030</u>	<u>\$ 3,956,923</u>
LIABILITIES			
Long-Term Liabilities:			
Due Within One Year:			
Long-Term Debt	\$ 563,000	\$ 156,000	\$ 719,000
Due After One Year:			
Long-Term Debt	1,670,000	1,728,000	3,398,000
Total Liabilities	<u>\$ 2,233,000</u>	<u>\$ 1,884,000</u>	<u>\$ 4,117,000</u>
NET POSITION			
Restricted for:			
Public Works	\$ 118,510	\$ -	\$ 118,510
Economic/Job Development	204,913	-	204,913
Capital Improvements	327,040	-	327,040
Unrestricted	(901,570)	91,030	(810,540)
Total Net Position	<u>\$ (251,107)</u>	<u>\$ 91,030</u>	<u>\$ (160,077)</u>

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

CITY OF HILLSBORO

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$ 356,895	\$ 36,720	\$ -	\$ (320,175)	\$ -	\$ (320,175)
Public Safety	225,620	-	-	(225,620)	-	(225,620)
Public Works/Infrastructure	308,457	5,577	97,621	(205,259)	-	(205,259)
Culture and Recreation	106,655	-	-	(106,655)	-	(106,655)
Economic Development	26,873	-	-	(26,873)	-	(26,873)
Miscellaneous	145,358	-	-	(145,358)	-	(145,358)
Interest & Fees on Long-Term Debt	107,341	-	-	(107,341)	-	(107,341)
Total Governmental Activities	\$ 1,277,199	\$ 42,297	\$ 97,621	\$ (1,137,281)	\$ -	\$ (1,137,281)
Business-Type Activities						
Water Funds	\$ 491,716	\$ 709,308	\$ -	\$ -	\$ 217,592	\$ 217,592
Electric Funds	2,042,252	2,544,336	-	-	502,084	502,084
Sewer Funds	129,560	114,331	-	-	(15,229)	(15,229)
Sanitation	266,042	263,501	-	-	(2,541)	(2,541)
Total Business-Type Activities	\$ 2,929,570	\$ 3,631,476	\$ -	\$ -	\$ 701,906	\$ 701,906
Total Primary Government	\$ 4,206,769	\$ 3,673,773	\$ 97,621	\$ (1,137,281)	\$ 701,906	\$ (435,375)
General Revenues						
Taxes:						
Property taxes levied for general purposes	\$ 220,976	\$ -	\$ 220,976			
Property taxes levied for special purposes	346,666	-	346,666			
Property taxes levied for debt service	485,218	-	485,218			
Sales taxes	178,409	-	178,409			
State Aid Distribution	139,441	-	139,441			
Interest Income	16,980	8,610	25,590			
Miscellaneous Revenue	55,607	30,431	86,038			
Transfers	288,589	(288,589)	-			
Total General Revenues and Transfers	\$ 1,731,886	\$ (249,548)	\$ 1,482,338			
Change in Net Position	\$ 594,605	\$ 452,358	\$ 1,046,963			
Net Position - January 1	\$ (845,712)	\$ (361,328)	\$ (1,207,040)			
Net Position - December 31	\$ (251,107)	\$ 91,030	\$ (160,077)			

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

CITY OF HILLSBORO

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2019

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds		
ASSETS							
Cash and Cash Equivalents	\$ -	\$ 2,627	\$ 38,202	\$ 327,024	\$ 1,214,661	\$ 115,883	\$ 1,698,397
Investments	655	-	157,730	16	125,095	-	283,496
Due from Other Funds	-	-	8,981	-	-	-	8,981
Total Assets	<u>\$ 655</u>	<u>\$ 2,627</u>	<u>\$ 204,913</u>	<u>\$ 327,040</u>	<u>\$ 1,339,756</u>	<u>\$ 115,883</u>	<u>\$ 1,990,874</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Due to Other Funds	\$ 8,981	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,981
Fund Balances							
Restricted:							
Debt Service	-	-	-	-	1,339,756	-	1,339,756
Public Works	-	2,627	-	-	-	115,883	118,510
Economic Development	-	-	204,913	-	-	-	204,913
Capital Improvements	-	-	-	327,040	-	-	327,040
Unassigned							
General Fund	(8,326)	-	-	-	-	-	(8,326)
Total Fund Balances	<u>\$ (8,326)</u>	<u>\$ 2,627</u>	<u>\$ 204,913</u>	<u>\$ 327,040</u>	<u>\$ 1,339,756</u>	<u>\$ 115,883</u>	<u>\$ 1,981,893</u>
Total Liabilities and Fund Balances	<u>\$ 655</u>	<u>\$ 2,627</u>	<u>\$ 204,913</u>	<u>\$ 327,040</u>	<u>\$ 1,339,756</u>	<u>\$ 115,883</u>	<u>\$ 1,990,874</u>

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

CITY OF HILLSBORO

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2019

Total Fund Balances for Governmental Funds \$ 1,981,893

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

Long-term liabilities 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.

Special Assessment Bonds Payable	\$ (1,810,000)	
Loans Payable	<u>(423,000)</u>	<u>(2,233,000)</u>

Total Net Position of Governmental Activities \$ (251,107)

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

CITY OF HILLSBORO

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

	Major Funds					Other	Total
	General	Highway	City	Capital	Debt	Governmental	Governmental
	Fund	Tax Fund	Sales Tax Fund	Project Funds	Service Funds	Funds	Funds
REVENUES							
Property Taxes	\$ 220,976	\$ 3,949	\$ -	\$ -	\$ 324,825	\$ 17,892	\$ 567,642
Sales Taxes	-	-	178,409	-	-	-	178,409
Special Assessments	-	-	-	-	485,218	-	485,218
Licenses, Permits and Fees	36,447	-	-	-	-	-	36,447
Intergovernmental	139,714	97,621	-	-	-	-	237,335
Charges for Services	-	-	-	-	-	5,577	5,577
Interest Income	14,274	-	1,549	16	1,141	-	16,980
Miscellaneous	16,781	150	2,000	-	-	36,676	55,607
Total Revenues	\$ 428,192	\$ 101,720	\$ 181,958	\$ 16	\$ 811,184	\$ 60,145	\$ 1,583,215
EXPENDITURES							
Current:							
General Government	\$ 342,407	\$ -	\$ -	\$ -	\$ -	\$ 14,488	\$ 356,895
Public Safety	225,620	-	-	-	-	-	225,620
Public Works	-	249,674	-	-	-	49,784	299,458
Culture and Recreation	106,655	-	-	-	-	-	106,655
Economic Development	-	-	14,250	-	-	12,623	26,873
Other	45,358	-	-	-	-	-	45,358
Miscellaneous	-	-	100,000	-	-	-	100,000
Capital Outlay	-	-	-	8,999	-	-	8,999
Dept Service:							
Principal	-	-	-	-	646,000	-	646,000
Interest	-	-	-	-	54,625	-	54,625
Fees	-	-	-	-	52,716	-	52,716
Total Expenditures	\$ 720,040	\$ 249,674	\$ 114,250	\$ 8,999	\$ 753,341	\$ 76,895	\$ 1,923,199
Excess (Deficiency) of Revenues Over Expenditures	\$ (291,848)	\$ (147,954)	\$ 67,708	\$ (8,983)	\$ 57,843	\$ (16,750)	\$ (339,984)
OTHER FINANCING SOURCES (USES)							
Transfers In	\$ 236,100	\$ 120,000	\$ -	\$ 95,570	\$ 160,000	\$ 53,700	\$ 665,370
Transfers Out	(5,411)	-	(371,370)	-	-	-	(376,781)
Total Other Financing Sources and Uses	\$ 230,689	\$ 120,000	\$ (371,370)	\$ 95,570	\$ 160,000	\$ 53,700	\$ 288,589
Net Change in Fund Balances	\$ (61,159)	\$ (27,954)	\$ (303,662)	\$ 86,587	\$ 217,843	\$ 36,950	\$ (51,395)
Fund Balances - January 1	\$ 52,833	\$ 30,581	\$ 508,575	\$ 240,453	\$ 1,121,913	\$ 78,933	\$ 2,033,288
Fund Balance - December 31	\$ (8,326)	\$ 2,627	\$ 204,913	\$ 327,040	\$ 1,339,756	\$ 115,883	\$ 1,981,893

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

CITY OF HILLSBORO

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

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$ (51,395)
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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.

Repayment of Special Assessment Bonds	\$ 535,000	
Repayment of State Revolving Fund Loans	<u>111,000</u>	<u>646,000</u>

Change in Net Position of Governmental Activities	<u>\$ 594,605</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO

Statement of Net Position – Proprietary Funds – Modified Cash Basis

December 31, 2019

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation Fund	Total Enterprise Funds
ASSETS					
Cash and Cash Equivalents	\$ 446,102	\$ 627,987	\$ 100,010	\$ 67,566	\$ 1,241,665
Investments	248,556	473,250	11,559	-	733,365
Total Assets	\$ 694,658	\$ 1,101,237	\$ 111,569	\$ 67,566	\$ 1,975,030
LIABILITIES					
Current Liabilities:					
Long-Term Debt	\$ 156,000	\$ -	\$ -	\$ -	\$ 156,000
Noncurrent Liabilities:					
Long-Term Debt	\$ 1,728,000	\$ -	\$ -	\$ -	\$ 1,728,000
Total Liabilities	\$ 1,884,000	\$ -	\$ -	\$ -	\$ 1,884,000
NET POSITION					
Unrestricted	\$ (1,189,342)	\$ 1,101,237	\$ 111,569	\$ 67,566	\$ 91,030
Total Net Position	\$ (1,189,342)	\$ 1,101,237	\$ 111,569	\$ 67,566	\$ 91,030

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

CITY OF HILLSBORO

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

	Business-Type Activities - Enterprise Funds				
	Water Fund	Electric Funds	Sewer Fund	Sanitation Fund	Total Enterprise Funds
OPERATING REVENUES					
Charges for Sales and Services	\$ 709,308	\$ 2,544,336	\$ 114,331	\$ 263,501	\$ 3,631,476
OPERATING EXPENSES					
Salaries and Benefits	\$ 129,655	\$ 118,024	\$ 30,466	\$ -	\$ 278,145
Professional Services (Legal, Engineering, etc)	20,032	-	-	229,728	249,760
Maintenance & Supplies	264,042	70,681	89,668	7,018	431,409
Recycling Costs	-	-	-	26,028	26,028
Purchased Power Costs	-	1,831,524	-	-	1,831,524
Machinery and Equipment	7,764	5,973	5,460	2,948	22,145
Miscellaneous	15,331	16,050	3,908	320	35,609
Total Operating Expenses	\$ 436,824	\$ 2,042,252	\$ 129,502	\$ 266,042	\$ 2,874,620
Operating Income (Loss)	\$ 272,484	\$ 502,084	\$ (15,171)	\$ (2,541)	\$ 756,856
NON-OPERATING REVENUES (EXPENSES)					
Interest on Investments	\$ 2,546	\$ 5,790	\$ 274	\$ -	\$ 8,610
Miscellaneous Receipts	22,309	2,568	4,000	1,554	30,431
Rent Payment	(12,167)	-	-	-	(12,167)
Retirement of Debt - Interest	(32,525)	-	-	-	(32,525)
Retirement of Debt - Fees	(10,200)	-	(58)	-	(10,258)
Total Nonoperating Revenues (Expenses)	\$ (30,037)	\$ 8,358	\$ 4,216	\$ 1,554	\$ (15,909)
Income Before Transfers	\$ 242,447	\$ 510,442	\$ (10,955)	\$ (987)	\$ 740,947
Transfers In	\$ 35,000	\$ 25,411	\$ 36,000	\$ -	\$ 96,411
Transfers Out	-	(385,000)	-	-	(385,000)
Total Transfers	\$ 35,000	\$ (359,589)	\$ 36,000	\$ -	\$ (288,589)
Change in Net Position	\$ 277,447	\$ 150,853	\$ 25,045	\$ (987)	\$ 452,358
Total Net Position - January 1	\$ (1,466,789)	\$ 950,384	\$ 86,524	\$ 68,553	\$ (361,328)
Total Net Position - December 31	\$ (1,189,342)	\$ 1,101,237	\$ 111,569	\$ 67,566	\$ 91,030

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

CITY OF HILLSBORO

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis

For the Year Ended December 31, 2019

	Water Funds	Electric Funds	Sewer Funds	Sanitation Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 709,308	\$ 2,544,336	\$ 114,331	\$ 263,501	\$ 3,631,476
Payments to Suppliers	(307,169)	(1,924,228)	(99,036)	(266,042)	(2,596,475)
Payments to Employees	(129,655)	(118,024)	(30,466)	-	(278,145)
Net Cash Provided (Used) by Operating Activities	\$ 272,484	\$ 502,084	\$ (15,171)	\$ (2,541)	\$ 756,856
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES					
Miscellaneous Revenue (Expense)	\$ 22,309	\$ 2,568	\$ 4,000	\$ 1,554	\$ 30,431
Rent Payment	(12,168)	-	-	-	(12,168)
Transfers from Other Funds	35,000	25,411	36,000	-	96,411
Transfers to Other Funds	-	(385,000)	-	-	(385,000)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 45,141	\$ (357,021)	\$ 40,000	\$ 1,554	\$ (270,326)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal Paid on Capital Debt	\$ (156,000)	\$ -	\$ -	\$ -	\$ (156,000)
Interest & Fees Paid on Capital Debt	(42,725)	-	(58)	-	(42,783)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (198,725)	\$ -	\$ (58)	\$ -	\$ (198,783)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases, Sales & Maturities of Investments	\$ (2,546)	\$ (5,790)	\$ (274)	\$ -	\$ (8,610)
Interest Income	2,546	5,790	274	-	8,610
Net Cash Provided (Used) by Investing Activities	\$ -	\$ -	\$ -	\$ -	\$ -
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 118,900	\$ 145,063	\$ 24,771	\$ (987)	\$ 287,747
Cash and Cash Equivalents, January 1	\$ 327,202	\$ 482,924	\$ 75,239	\$ 68,553	\$ 953,918
Cash and Cash Equivalents, December 31	\$ 446,102	\$ 627,987	\$ 100,010	\$ 67,566	\$ 1,241,665
Net Cash Provided (Used) by Operating Activities	\$ 272,484	\$ 502,084	\$ (15,171)	\$ (2,541)	\$ 756,856

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

CITY OF HILLSBORO

Statement of Net Position – Modified Cash Basis
December 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,753,154	\$ 953,918	\$ 2,707,072
Investments	280,134	724,754	1,004,888
Total Assets	\$ 2,033,288	\$ 1,678,672	\$ 3,711,960
LIABILITIES			
Long-Term Liabilities:			
Due Within One Year:			
Long-Term Debt	\$ 646,000	\$ 156,000	\$ 802,000
Due After One Year:			
Long-Term Debt	2,233,000	1,884,000	4,117,000
Total Liabilities	\$ 2,879,000	\$ 2,040,000	\$ 4,919,000
NET POSITION			
Restricted for:			
Public Works	\$ 109,514	\$ -	\$ 109,514
Economic/Job Development	508,575	-	508,575
Capital Improvements	240,453	-	240,453
Unrestricted	(1,704,254)	(361,328)	(2,065,582)
Total Net Position	\$ (845,712)	\$ (361,328)	\$ (1,207,040)

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

CITY OF HILLSBORO

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$ 425,087	\$ 41,541	\$ -	\$ (383,546)	\$ -	\$ (383,546)
Public Safety	163,493	-	-	(163,493)	-	(163,493)
Public Works/Infrastructure	349,541	7,530	96,138	(245,873)	-	(245,873)
Culture and Recreation	94,646	-	-	(94,646)	-	(94,646)
Economic Development	64,784	-	-	(64,784)	-	(64,784)
Miscellaneous	39,373	-	-	(39,373)	-	(39,373)
Interest & Fees on Long-Term Debt	76,384	-	-	(76,384)	-	(76,384)
Total Governmental Activities	\$ 1,213,308	\$ 49,071	\$ 96,138	\$ (1,068,099)	\$ -	\$ (1,068,099)
Business-Type Activities						
Water Funds	\$ 476,201	\$ 665,453	\$ -	\$ -	\$ 189,252	\$ 189,252
Electric Funds	2,244,017	2,594,891	-	-	350,874	350,874
Sewer Funds	194,404	109,263	-	-	(85,141)	(85,141)
Sanitation	245,310	240,641	-	-	(4,669)	(4,669)
Total Business-Type Activities	\$ 3,159,932	\$ 3,610,248	\$ -	\$ -	\$ 450,316	\$ 450,316
Total Primary Government	\$ 4,373,240	\$ 3,659,319	\$ 96,138	\$ (1,068,099)	\$ 450,316	\$ (617,783)
General Revenues						
Taxes:						
Property taxes levied for general purposes	\$ 215,024	\$ -	\$ 215,024			
Property taxes levied for special purposes	321,504	-	321,504			
Property taxes levied for debt service	514,115	-	514,115			
Sales taxes	188,487	-	188,487			
State Aid Distribution	123,005	-	123,005			
Interest Income	1,503	470	1,973			
Miscellaneous Revenue	138,919	228,583	367,502			
Transfers	190,310	(190,310)	-			
Total General Revenues and Transfers	\$ 1,692,867	\$ 38,743	\$ 1,731,610			
Change in Net Position	\$ 624,768	\$ 489,059	\$ 1,113,827			
Net Position - January 1	\$ (1,470,480)	\$ (1,199,125)	\$ (2,669,605)			
Prior Period Adjustment	\$ -	\$ 348,738	\$ 348,738			
Net Position - January 1, as restated	\$ (1,470,480)	\$ (850,387)	\$ (2,320,867)			
Net Position - December 31	\$ (845,712)	\$ (361,328)	\$ (1,207,040)			

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

CITY OF HILLSBORO

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2018

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds		
ASSETS							
Cash and Cash Equivalents	\$ 52,833	\$ 30,581	\$ 352,394	\$ 240,453	\$ 997,960	\$ 78,933	\$ 1,753,154
Investments	-	-	156,181	-	123,953	-	280,134
Total Assets	<u>\$ 52,833</u>	<u>\$ 30,581</u>	<u>\$ 508,575</u>	<u>\$ 240,453</u>	<u>\$ 1,121,913</u>	<u>\$ 78,933</u>	<u>\$ 2,033,288</u>
FUND BALANCES							
Restricted:							
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 1,121,913	\$ -	\$ 1,121,913
Public Works	-	30,581	-	-	-	78,933	109,514
Economic Development	-	-	508,575	-	-	-	508,575
Capital Improvements	-	-	-	240,453	-	-	240,453
Unassigned							
General Fund	52,833	-	-	-	-	-	52,833
Total Fund Balances	<u>\$ 52,833</u>	<u>\$ 30,581</u>	<u>\$ 508,575</u>	<u>\$ 240,453</u>	<u>\$ 1,121,913</u>	<u>\$ 78,933</u>	<u>\$ 2,033,288</u>
Total Liabilities and Fund Balances	<u>\$ 52,833</u>	<u>\$ 30,581</u>	<u>\$ 508,575</u>	<u>\$ 240,453</u>	<u>\$ 1,121,913</u>	<u>\$ 78,933</u>	<u>\$ 2,033,288</u>

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

CITY OF HILLSBORO

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2018

Total Fund Balances for Governmental Funds \$ 2,033,288

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

Long-term liabilities 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.

Special Assessment Bonds Payable	\$ (2,345,000)	
Loans Payable	<u>(534,000)</u>	<u>(2,879,000)</u>

Total Net Position of Governmental Activities		<u><u>\$ (845,712)</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF HILLSBORO

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis For the Year Ended December 31, 2018

	Major Funds					Other	Total
	General	Highway	City	Capital	Debt	Governmental	Governmental
	Fund	Tax Fund	Sales Tax Fund	Project Funds	Service Funds	Funds	Funds
REVENUES							
Property Taxes	\$ 215,024	\$ 3,265	\$ -	\$ -	\$ 304,077	\$ 14,162	\$ 536,528
Sales Taxes	-	-	188,487	-	-	-	188,487
Special Assessments	-	-	-	-	514,115	-	514,115
Licenses, Permits and Fees	41,541	-	-	-	-	-	41,541
Intergovernmental	123,005	96,138	-	-	-	-	219,143
Charges for Services	-	-	-	-	-	7,530	7,530
Interest Income	1,327	-	97	1	77	1	1,503
Miscellaneous	10,284	459	-	-	81,811	46,365	138,919
Total Revenues	\$ 391,181	\$ 99,862	\$ 188,584	\$ 1	\$ 900,080	\$ 68,058	\$ 1,647,766
EXPENDITURES							
Current:							
General Government	\$ 343,208	\$ -	\$ -	\$ -	\$ -	\$ 81,879	\$ 425,087
Public Safety	163,493	-	-	-	-	-	163,493
Public Works	-	189,661	-	-	-	10,870	200,531
Culture and Recreation	94,646	-	-	-	-	-	94,646
Economic Development	-	-	45,965	-	-	18,819	64,784
Other	15,373	-	20,000	4,000	-	-	39,373
Capital Outlay	-	-	-	99,010	50,000	-	149,010
Dept Service:							
Principal	-	-	-	-	644,000	-	644,000
Interest	-	-	-	-	65,139	-	65,139
Fees	-	-	-	-	11,245	-	11,245
Total Expenditures	\$ 616,720	\$ 189,661	\$ 65,965	\$ 103,010	\$ 770,384	\$ 111,568	\$ 1,857,308
Excess (Deficiency) of Revenues Over Expenditures	\$ (225,539)	\$ (89,799)	\$ 122,619	\$ (103,009)	\$ 129,696	\$ (43,510)	\$ (209,542)
OTHER FINANCING SOURCES (USES)							
Transfers In	\$ 150,000	\$ 80,000	\$ -	\$ 170,000	\$ -	\$ 34,500	\$ 434,500
Transfers Out	(105,190)	(5,000)	(120,000)	(14,000)	-	-	(244,190)
Total Other Financing Sources and Uses	\$ 44,810	\$ 75,000	\$ (120,000)	\$ 156,000	\$ -	\$ 34,500	\$ 190,310
Net Change in Fund Balances	\$ (180,729)	\$ (14,799)	\$ 2,619	\$ 52,991	\$ 129,696	\$ (9,010)	\$ (19,232)
Fund Balances - January 1	\$ 233,562	\$ 45,380	\$ 505,956	\$ 187,462	\$ 992,217	\$ 87,943	\$ 2,052,520
Fund Balance - December 31	\$ 52,833	\$ 30,581	\$ 508,575	\$ 240,453	\$ 1,121,913	\$ 78,933	\$ 2,033,288

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

CITY OF HILLSBORO

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2018

Net Change in *Fund Balances* - Total Governmental Funds \$ (19,232)

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.

Repayment of Special Assessment Bonds	\$ 535,000	
Repayment of State Revolving Fund Loans	<u>109,000</u>	<u>644,000</u>

Change in Net Position of Governmental Activities \$ 624,768

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

CITY OF HILLSBORO

Statement of Net Position – Proprietary Funds – Modified Cash Basis

December 31, 2018

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation Fund	Total Enterprise Funds
ASSETS					
Cash and Cash Equivalents	\$ 327,202	\$ 482,924	\$ 75,239	\$ 68,553	\$ 953,918
Investments	246,009	467,460	11,285	-	724,754
Total Assets	\$ 573,211	\$ 950,384	\$ 86,524	\$ 68,553	\$ 1,678,672
LIABILITIES					
Current Liabilities:					
Bonds Payable	\$ 156,000	\$ -	\$ -	\$ -	\$ 156,000
Noncurrent Liabilities:					
Bonds Payable	\$ 1,884,000	\$ -	\$ -	\$ -	\$ 1,884,000
Total Liabilities	\$ 2,040,000	\$ -	\$ -	\$ -	\$ 2,040,000
NET POSITION					
Unrestricted	\$ (1,466,789)	\$ 950,384	\$ 86,524	\$ 68,553	\$ (361,328)
Total Net Position	\$ (1,466,789)	\$ 950,384	\$ 86,524	\$ 68,553	\$ (361,328)

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

CITY OF HILLSBORO

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds				
	Water Fund	Electric Funds	Sewer Fund	Sanitation Fund	Total Enterprise Funds
OPERATING REVENUES					
Charges for Sales and Services	\$ 665,453	\$ 2,594,891	\$ 109,263	\$ 240,641	\$ 3,610,248
OPERATING EXPENSES					
Salaries and Benefits	\$ 109,495	\$ 98,162	\$ 27,678	\$ -	\$ 235,335
Professional Services (Legal, Engineering, etc)	31,623	12,822	61,037	224,446	329,928
Maintenance & Supplies	199,130	59,443	59,235	4,302	322,110
Recycling Costs	-	-	-	13,374	13,374
Raw Water Costs	-	-	-	-	-
Purchased Power Costs	-	1,838,887	-	-	1,838,887
Machinery and Equipment	2,501	5,949	2,501	2,868	13,819
Miscellaneous	7,580	228,754	2,953	320	239,607
Total Operating Disbursements	\$ 350,329	\$ 2,244,017	\$ 153,404	\$ 245,310	\$ 2,993,060
Operating Income (Loss)	\$ 315,124	\$ 350,874	\$ (44,141)	\$ (4,669)	\$ 617,188
NONOPERATING REVENUES (EXPENSES)					
Interest on Investments	\$ 152	\$ 311	\$ 7	\$ -	\$ 470
Miscellaneous Receipts	20,047	200,229	6,000	2,307	228,583
Lease Payment - Traill County Water Resource District	(14,509)	-	-	-	(14,509)
Retirement of Debt - Interest	(35,290)	-	-	-	(35,290)
Retirement of Debt - Fees	(11,073)	-	-	-	(11,073)
Miscellaneous Expenditures	(65,000)	-	(41,000)	-	(106,000)
Total Nonoperating Revenues (Expenses)	\$ (105,673)	\$ 200,540	\$ (34,993)	\$ 2,307	\$ 62,181
Income Before Transfers	\$ 209,451	\$ 551,414	\$ (79,134)	\$ (2,362)	\$ 679,369
Transfers In	\$ -	\$ 105,190	\$ -	\$ -	\$ 105,190
Transfers Out	(30,000)	(260,000)	(5,500)	-	(295,500)
Total Transfers	\$ (30,000)	\$ (154,810)	\$ (5,500)	\$ -	\$ (190,310)
Change in Net Position	\$ 179,451	\$ 396,604	\$ (84,634)	\$ (2,362)	\$ 489,059
Total Net Position - January 1	\$ (1,994,978)	\$ 553,780	\$ 171,158	\$ 70,915	\$ (1,199,125)
Prior Period Adjustment	\$ 348,738	\$ -	\$ -	\$ -	\$ 348,738
Net Position - January 1, as restated	\$ (1,646,240)	\$ 553,780	\$ 171,158	\$ 70,915	\$ (850,387)
Total Net Position - December 31	\$ (1,466,789)	\$ 950,384	\$ 86,524	\$ 68,553	\$ (361,328)

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

CITY OF HILLSBORO

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis

For the Year Ended December 31, 2018

	Water Funds	Electric Funds	Sewer Funds	Sanitation Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 665,453	\$ 2,594,891	\$ 109,263	\$ 240,641	\$ 3,610,248
Payments to Suppliers	(240,834)	(2,145,855)	(125,726)	(245,310)	(2,757,725)
Payments to Employees	(109,495)	(98,377)	(27,678)	-	(235,550)
Net Cash Provided (Used) by Operating Activities	\$ 315,124	\$ 350,659	\$ (44,141)	\$ (4,669)	\$ 616,973
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES					
Miscellaneous Revenue (Expense)	\$ (44,953)	\$ 200,229	\$ (35,000)	\$ 2,307	\$ 122,583
Transfers from Other Funds	-	105,190	-	-	105,190
Transfers to Other Funds	(30,000)	(260,000)	(5,500)	-	(295,500)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (74,953)	\$ 45,419	\$ (40,500)	\$ 2,307	\$ (67,727)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal Paid on Capital Debt	\$ (151,262)	\$ -	\$ -	\$ -	\$ (151,262)
Operating Lease Payments	(14,509)	-	-	-	(14,509)
Interest & Fees Paid on Capital Debt	(46,363)	-	-	-	(46,363)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (212,134)	\$ -	\$ -	\$ -	\$ (212,134)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases, Sales & Maturities of Investments	\$ 58,272	\$ 86,535	\$ 38,993	\$ -	\$ 183,800
Interest Income	152	311	7	-	470
Net Cash Provided (Used) by Investing Activities	\$ 58,424	\$ 86,846	\$ 39,000	\$ -	\$ 184,270
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 86,461	\$ 482,924	\$ (45,641)	\$ (2,362)	\$ 521,382
Cash and Cash Equivalents, January 1	\$ 240,741	\$ -	\$ 120,880	\$ 70,915	\$ 432,536
Cash and Cash Equivalents, December 31	\$ 327,202	\$ 482,924	\$ 75,239	\$ 68,553	\$ 953,918
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 315,124	\$ 350,874	\$ (44,141)	\$ (4,669)	\$ 617,188
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>					
Change in Assets and Liabilities:					
Benefits Payable	\$ -	\$ (215)	\$ -	\$ -	\$ (215)
Net Cash Provided (Used) by Operating Activities	\$ 315,124	\$ 350,659	\$ (44,141)	\$ (4,669)	\$ 616,973

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

CITY OF HILLSBORO

Statement of Fiduciary Assets and Liabilities – Agency Funds – Modified Cash Basis
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and investments	<u>\$ 103</u>	<u>\$ (99,897)</u>
LIABILITIES		
Due to other entities	<u>\$ 103</u>	<u>\$ (99,897)</u>

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

CITY OF HILLSBORO

Notes to the Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hillsboro ("City") have been prepared on the modified cash basis of accounting, 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 City's accounting policies are described below.

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 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 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 as a reporting entity.

Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the City. 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 non-exchange 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, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds including its fiduciary funds. Separate statements for each fund category—*governmental, proprietary and fiduciary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange 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 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.

CITY OF HILLSBORO

Notes to the Financial Statements – Continued

Capital Projects Fund - 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 Fund - 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.

Additionally, the City reports the following fund type:

Agency Funds - These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's agency funds are used to account for property taxes collected on behalf of other governments.

Measurement Focus

Government-wide and Proprietary Fund Financial Statements. The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Only current financial assets are generally included on their balance sheet. The Statements of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

Fiduciary Funds Financial Statement. The fiduciary fund financial statement is reported using the economic resources measurement focus, as applied to the modified cash basis of accounting.

Basis of Accounting

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenses when they result from cash transactions with a provision for depreciation. The modified cash basis of accounting is modified for recording investments at current fair value, rather than cost. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City's governmental funds use the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received in cash and expenditures are recorded at the time of disbursement.

If the City utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

Cash

Cash includes amounts in demand deposits and money market accounts.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

When applicable, in the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Balance

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

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

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.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund.

Interfund Transactions

In the governmental 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.

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Business-Type Activities

Net position as of January 1, 2018 has been restated for an adjustment in long-term debt as shown below.

Business-Type Activities- Water:	Amounts
Beginning Net Assets, as previously reported	\$ (1,994,978)
Adjustments to restate the January 1, 2018 Net Assets:	
Reduce Long-Term Debt	348,738
Net Assets January 1, as restated	\$ (1,646,240)

NOTE 3 DEPOSITS**Custodial Credit Risk**

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the City would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The City does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota Statutes, 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.

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 another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2019, the City's carrying amount of deposits totaled \$3,846,614, and the bank balances totaled \$3,872,773. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances, besides \$167,009 of the bank balances which were uninsured and uncollateralized, were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, the City's carrying amount of deposits totaled \$3,507,247, and the bank balances totaled \$3,547,843. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; 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 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.

NOTE 5 LONG-TERM LIABILITIES**Governmental Activities**

The following changes occurred in long-term liabilities for the years ended 2019 and 2018:

Governmental Activities - 2019	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Special Assessments	\$ 2,345,000	\$ -	\$ 535,000	\$ 1,810,000	\$ 450,000
SRF Loans	534,000	-	111,000	423,000	113,000
Total Governmental Activities	\$ 2,879,000	\$ -	\$ 646,000	\$ 2,233,000	\$ 563,000

CITY OF HILLSBORO

Notes to the Financial Statements – Continued

Governmental Activities - 2018	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Special Assessments	\$ 2,880,000	\$ -	\$ 535,000	\$ 2,345,000	\$ 535,000
SRF Loans	643,000	-	109,000	534,000	111,000
Total Governmental Activities	\$ 3,523,000	\$ -	\$ 644,000	\$ 2,879,000	\$ 646,000

Business-Type Activities

The following changes occurred in long-term liabilities for the years ended 2019 and 2018:

Business-Type Activities - 2019	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Revenue Bonds	\$ 2,040,000	\$ -	\$ 156,000	\$ 1,884,000	\$ 156,000
Total Business-Type Activities	\$ 2,040,000	\$ -	\$ 156,000	\$ 1,884,000	\$ 156,000

Business-Type Activities - 2018	Restated Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Revenue Bonds	\$ 2,191,262	\$ -	\$ 151,262	\$ 2,040,000	\$ 156,000
Total Business-Type Activities	\$ 2,191,262	\$ -	\$ 151,262	\$ 2,040,000	\$ 156,000

The annual requirements to amortize the outstanding long-term debt at December 31, 2019 is as follows:

GOVERNMENTAL ACTIVITIES				
Year Ending Dec 31	Special Assessments		SRF Loans	
	Principal	Interest	Principal	Interest
2020	\$ 450,000	\$ 33,278	\$ 113,000	\$ 10,575
2021	445,000	25,075	115,000	7,750
2022	450,000	15,981	20,000	4,875
2023	115,000	10,016	20,000	4,375
2024	115,000	7,570	20,000	3,875
2025-2029	235,000	13,014	135,000	10,250
Total	\$ 1,810,000	\$ 104,934	\$ 423,000	\$ 41,700

BUSINESS-TYPE ACTIVITIES		
Year Ending Dec 31	Revenue Bonds	
	Principal	Interest
2020	\$ 156,000	\$ 30,125
2021	161,000	27,725
2022	166,000	25,225
2023	166,000	22,625
2024	929,000	20,025
2025 - 2029	171,000	57,825
2030 - 2034	135,000	2,700
Total	\$ 1,884,000	\$ 186,250

NOTE 7 PENSION PLAN

The City of Hillsboro provides a retirement plan for city employees. The profit-sharing plan is a 401a 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 Bell Bank. 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, 2019, 2018 and 2017 were \$31,463, \$21,595, and \$32,346, respectively.

NOTE 8 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the City accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and for automobile, and \$1,358,782 for public assets (mobile equipment and portable property).

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 blanket fidelity bond coverage in the amount of \$1,400,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City has worker's compensation with the North Dakota Workforce Safety and Insurance.

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

NOTE 10 CONDUIT DEBT

From time to time, the City has issued Community Development Block Grant Loans 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 loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans, ownership of the acquired facilities transfers to the private sector entity served by the loan issuance. Neither the City, State, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

CITY OF HILLSBORONotes to the Financial Statements – Continued

As of December 31, 2019, there was one series of Community Development Block Grant Loans outstanding, with an aggregate principal amount payable of \$137,000.

NOTE 11 SUBSEQUENT EVENTS

On August 3, 2020, the City approved a six year loan to finance capital assets purchased in 2020. Future loan principal payments are due annually in the amount of \$63,000 for the first five years and a balloon payment in the final year of the loan. The loan matures in FY2026.

CITY OF HILLSBORO

Budgetary Comparison Schedule - General Fund

For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 230,200	\$ 230,200	\$ 220,976	\$ (9,224)
Licenses, Permits and Fees	42,010	42,010	36,447	(5,563)
Intergovernmental	119,500	119,500	139,714	20,214
Fines, Forfeitures and Penalties	50	50	-	(50)
Interest	1,000	1,000	14,274	13,274
Miscellaneous	33,000	33,000	16,781	(16,219)
Total Revenues	\$ 425,760	\$ 425,760	\$ 428,192	\$ 2,432
EXPENDITURES				
Current:				
General Government	\$ 267,550	\$ 267,550	\$ 342,407	\$ (74,857)
Public Safety	196,000	196,000	225,620	(29,620)
Culture and Recreation	108,100	108,100	106,655	1,445
Other	10,000	10,000	45,358	(35,358)
Total Expenditures	\$ 581,650	\$ 581,650	\$ 720,040	\$ (138,390)
Excess (Deficiency) of Revenues Over Expenditures	\$ (155,890)	\$ (155,890)	\$ (291,848)	\$ (135,958)
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 52,900	\$ 52,900	\$ 236,100	\$ 183,200
Transfers Out	-	-	(5,411)	(5,411)
Total Other Financing Sources and Uses	\$ 52,900	\$ 52,900	\$ 230,689	\$ 177,789
Net Change in Fund Balances	\$ (102,990)	\$ (102,990)	\$ (61,159)	\$ 41,831
Fund Balances - January 1	\$ 52,833	\$ 52,833	\$ 52,833	\$ -
Fund Balances - December 31	\$ (50,157)	\$ (50,157)	\$ (8,326)	\$ 41,831

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

CITY OF HILLSBORO

Budgetary Comparison Schedule – Highway Tax Fund

For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 5,000	\$ 5,000	3,949	(1,051)
Intergovernmental	100,000	100,000	97,621	(2,379)
Miscellaneous Revenue	500	500	150	(350)
Total Revenues	\$ 105,500	\$ 105,500	\$ 101,720	\$ (3,780)
EXPENDITURES				
Current:				
Public Works	\$ 213,625	\$ 213,625	\$ 249,674	\$ (36,049)
Excess (Deficiency) of Revenues Over Expenditures	\$ (108,125)	\$ (108,125)	\$ (147,954)	\$ (39,829)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 80,000	\$ 80,000	\$ 120,000	\$ 40,000
Transfers Out	(5,000)	(5,000)	-	5,000
Total Other Financing Sources and Uses	\$ 75,000	\$ 75,000	\$ 120,000	\$ 45,000
Net Change in Fund Balances	\$ (33,125)	\$ (33,125)	\$ (27,954)	\$ 5,171
Fund Balances - January 1	\$ 30,581	\$ 30,581	\$ 30,581	\$ -
Fund Balances - December 31	\$ (2,544)	\$ (2,544)	\$ 2,627	\$ 5,171

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

CITY OF HILLSBORO

Budgetary Comparison Schedule – Sales Tax Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 180,000	\$ 180,000	\$ 178,409	\$ (1,591)
Interest income	300	300	1,549	1,249
Miscellaneous	-	-	2,000	2,000
Total Revenues	\$ 180,300	\$ 180,300	\$ 181,958	\$ 1,658
EXPENDITURES				
Current:				
Economic Development	\$ 57,900	\$ 57,900	\$ 14,250	\$ 43,650
Miscellaneous	-	-	100,000	(100,000)
Total Expenditures	\$ 57,900	\$ 57,900	\$ 114,250	\$ (56,350)
Excess (Deficiency) of Revenues Over Expenditures	\$ 122,400	\$ 122,400	\$ 67,708	\$ (54,692)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (129,000)	\$ (129,000)	\$ (371,370)	\$ (242,370)
Net Change in Fund Balances	\$ (6,600)	\$ (6,600)	\$ (303,662)	\$ (297,062)
Fund Balances - January 1	\$ 508,575	\$ 508,575	\$ 508,575	\$ -
Fund Balances - December 31	\$ 501,975	\$ 501,975	\$ 204,913	\$ (297,062)

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

CITY OF HILLSBORO

Budgetary Comparison Schedule – General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 221,200	\$ 221,200	\$ 215,024	\$ (6,176)
Licenses, Permits and Fees	42,010	42,010	41,541	(469)
Intergovernmental	119,500	119,500	123,005	3,505
Fines, Forfeitures and Penalties	50	50	-	(50)
Interest	1,000	1,000	1,327	327
Miscellaneous	33,000	33,000	10,284	(22,716)
 Total Revenues	 \$ 416,760	 \$ 416,760	 \$ 391,181	 \$ (25,579)
EXPENDITURES				
Current:				
General Government	\$ 267,580	\$ 267,580	\$ 343,208	\$ (75,628)
Public Safety	186,000	186,000	163,493	22,507
Culture and Recreation	104,100	104,100	94,646	9,454
Other	10,000	10,000	15,373	(5,373)
 Total Expenditures	 \$ 567,680	 \$ 567,680	 \$ 616,720	 \$ (49,040)
 Excess (Deficiency) of Revenues Over Expenditures	 \$ (150,920)	 \$ (150,920)	 \$ (225,539)	 \$ (74,619)
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Transfers Out	-	-	(105,190)	(105,190)
 Total Other Financing Sources and Uses	 \$ 150,000	 \$ 150,000	 \$ 44,810	 \$ (105,190)
 Net Change in Fund Balances	 \$ (920)	 \$ (920)	 \$ (180,729)	 \$ (179,809)
 Fund Balances - January 1	 \$ 233,562	 \$ 233,562	 \$ 233,562	 \$ -
 Fund Balances - December 31	 \$ 232,642	 \$ 232,642	 \$ 52,833	 \$ (179,809)

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

CITY OF HILLSBORO

Budgetary Comparison Schedule – Highway Tax Fund

For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 5,000	\$ 5,000	\$ 3,265	\$ (1,735)
Intergovernmental	100,000	100,000	96,138	(3,862)
Miscellaneous Revenue	500	500	459	(41)
Total Revenues	\$ 105,500	\$ 105,500	\$ 99,862	\$ (5,638)
EXPENDITURES				
Current:				
Public Works	\$ 203,625	\$ 203,625	\$ 189,661	\$ 13,964
Excess (Deficiency) of Revenues Over Expenditures	\$ (98,125)	\$ (98,125)	\$ (89,799)	\$ 8,326
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 80,000	\$ 80,000	\$ 80,000	\$ -
Transfers Out	(5,000)	(5,000)	(5,000)	-
Total Other Financing Sources and Uses	\$ 75,000	\$ 75,000	\$ 75,000	\$ -
Net Change in Fund Balances	\$ (23,125)	\$ (23,125)	\$ (14,799)	\$ 8,326
Fund Balances - January 1	\$ 45,380	\$ 45,380	\$ 45,380	\$ -
Fund Balances - December 31	\$ 22,255	\$ 22,255	\$ 30,581	\$ 8,326

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

CITY OF HILLSBORO

Budgetary Comparison Schedule – Sales Tax Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 175,000	\$ 175,000	\$ 188,487	\$ 13,487
Interest income	300	300	97	(203)
Total Revenues	<u>\$ 175,300</u>	<u>\$ 175,300</u>	<u>\$ 188,584</u>	<u>\$ 13,284</u>
EXPENDITURES				
Current:				
Economic Development	\$ 67,900	\$ 72,142	\$ 45,965	\$ 26,177
Other	-	-	20,000	(20,000)
Total Expenditures	<u>\$ 67,900</u>	<u>\$ 72,142</u>	<u>\$ 65,965</u>	<u>\$ 6,177</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 107,400</u>	<u>\$ 103,158</u>	<u>\$ 122,619</u>	<u>\$ 7,107</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (404,000)	\$ (404,000)	\$ (120,000)	\$ 284,000
Net Change in Fund Balances	<u>\$ (296,600)</u>	<u>\$ (300,842)</u>	<u>\$ 2,619</u>	<u>\$ 291,107</u>
Fund Balances - January 1	<u>\$ 505,956</u>	<u>\$ 505,956</u>	<u>\$ 505,956</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 209,356</u></u>	<u><u>\$ 205,114</u></u>	<u><u>\$ 508,575</u></u>	<u><u>\$ 291,107</u></u>

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

CITY OF HILLSBORO

Notes to the Supplementary Information
For the Years Ended December 31, 2019 and 2018

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The governing board adopts an annual budget on a basis consistent with the modified cash basis of accounting, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 for the general fund, each special revenue fund and each debt service fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The governing body of each municipality, annually or before September tenth, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7th at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7th in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7th, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10th, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).
- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability of the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. The governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

CITY OF HILLSBORO

Notes to the Supplementary Information - Continued
 For the Years Ended December 31, 2019 and 2018

NOTE 2 LEGAL COMPLIANCE - BUDGETS

The board of City commissioners amended the 2018 City expenditures budget for the special revenue funds as follows:

2018	Original Budget	Amendment	Amended Budget
City Sales Tax Fund	\$ 67,900	\$ 4,242	\$ 72,142

NOTE 3 EXPENDITURES IN EXCESS OF BUDGET

During fiscal years 2018 and 2019, the City of Hillsboro had the following fund expenditures in excess of budgeted amounts:

2019 Fund	Budget	Actual	Excess
General Fund	\$ 581,650	\$ 720,040	\$ 138,390
General Fund - Transfers Out	-	5,411	5,411
Highway Tax	213,625	249,674	36,049
Sales Tax	57,900	114,250	56,350
Riverbend Debt Service	88,653	91,257	2,604
PrairieView Debt Service	125,819	155,234	29,415
Kingsman Sewer	53,980	58,185	4,205
Capital Projects	-	2,000	2,000
New Equipment	6,999	152,575	145,576
BNSF Caboose Restoration	-	500	500
Cemetery	18,250	18,547	297
Mosquito Control	11,800	15,538	3,738
Recreation District	11,000	15,650	4,650
Total	1,169,676	1,598,861	429,185

2018 Fund	Budget	Actual	Excess
General Fund	\$ 566,680	\$ 616,720	\$ 50,040
General Fund - Transfers Out	-	105,190	105,190
Prairieview Debt Service	136,283	165,639	29,356
Kingsman Sewer	53,980	58,780	4,800
Armory	42,000	70,570	28,570

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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

Board of City Commissioners
City of Hillsboro
Hillsboro, 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 Hillsboro as of and for the years ended December 31, 2019 and 2018, 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 June 25, 2021

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 have not been identified. However, as described in the accompanying *schedule of audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 audit findings* as items 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, 2019-006 to be material weaknesses.

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. We consider the deficiency described in the accompanying *schedule of audit findings* as item 2019-007 to be a significant deficiency.

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* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hillsboro's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying *schedule of audit findings* as item 2019-003 and 2019-004.

City of Hillsboro's Response to Findings

City of Hillsboro's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 25, 2021

CITY OF HILLSBORO

Summary of Auditor's Results

For the Years Ended December 31, 2019 and 2018

Financial Statements

Type of 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 weaknesses identified?

 X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

 X Yes None Noted

Noncompliance material to financial statements noted?

 X Yes None Noted

CITY OF HILLSBORO

Schedule of Audit Findings

For the Years Ended December 31, 2019 and 2018

2019-001 BANK RECONCILIATIONS – MATERIAL WEAKNESS

Condition

During testing of the various December 31, 2019 and December 31, 2018 bank reconciliations of the City of Hillsboro, it was found that multiple bank reconciliations were not completed. The bank reconciliations were updated and completed during the audit by city staff.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the bank reconciliations, management is responsible for policies and procedures for accurate and timely bank reconciliations.

Cause

The City of Hillsboro did not have adequate procedures in place for the bank reconciliation process, due to the change of Auditor office staff and switching from paper reconciliations to the Banyon Accounting Software.

Effect

There is an increased risk of material misstatement to the City of Hillsboro's financial statements whether due to error or fraud if bank reconciliations are not complete and accurate.

Repeat Finding

No.

Recommendation

We recommend the City of Hillsboro review its bank reconciliation policies and procedures and update, if necessary, to ensure that all bank reconciliations are accurate and completed in a timely manner.

City of Hillsboro's Response

Agree. The City of Hillsboro has corrected the unbalanced/uncompleted bank reconciliations and will review policies and procedures to ensure that bank reconciliations are done accurately and timely.

2019-002 CAPITAL ASSET RECORDS – MATERIAL WEAKNESS

Condition

The City of Hillsboro 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.

Cause

The City of Hillsboro in the past has not maintained a listing of capital assets.

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.

Repeat Finding

Yes.

Recommendation

We recommend the City of Hillsboro 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.

City of Hillsboro's Response

Agree. The City will establish and maintain capital asset records in the future.

2019-003 LACK OF PLEDGED ASSETS – MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE

Condition

The City of Hillsboro did not obtain adequate pledge of assets at Goose River Bank as of December 31, 2019. The District was under pledged by \$167,009.

Criteria

N.D.C.C. §21-04-09 states “When securities are pledged to the board of any public corporation, the treasurer or other individual legally charged with the custody of public funds shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits.”

Cause

The City of Hillsboro did not have a process to ensure the entity is adequately pledged.

Effect

The City of Hillsboro is not in compliance with N.D.C.C. §21-04-09.

Repeat Finding

No.

Recommendation

We recommend that the City of Hillsboro ensure that it maintains adequate pledges of securities at any bank where the bank balances could exceed FDIC Insurance.

City of Hillsboro’s Response

Agree. The City of Hillsboro will make sure that we maintain the proper level of pledged assets.

CITY OF HILLSBORO

Schedule of Audit Findings – Continued

2019-004 EXPENDITURES IN EXCESS OF APPROPRIATIONS – MATERIAL WEAKNESS AND MATERIAL NONCOMPLAINE**Condition**

The City of Hillsboro failed to amend its budget in 2018 and 2019, thus causing the following funds to be spent in excess of the appropriations:

2019 Fund	Budget	Actual	Excess
General Fund	\$ 581,650	\$ 720,040	\$ 138,390
General Fund - Transfers Out	-	5,411	5,411
Highway Tax	213,625	249,674	36,049
Sales Tax	57,900	114,250	56,350
Riverbend Debt Service	88,653	91,257	2,604
PrairieView Debt Service	125,819	155,234	29,415
Kingsman Sewer	53,980	58,185	4,205
Capital Projects	-	2,000	2,000
New Equipment	6,999	152,575	145,576
BNSF Caboose Restoration	-	500	500
Cemetery	18,250	18,547	297
Mosquito Control	11,800	15,538	3,738
Recreation District	11,000	15,650	4,650
Total	1,169,676	1,598,861	429,185

2018 Fund	Budget	Actual	Excess
General Fund	\$ 566,680	\$ 616,720	\$ 50,040
General Fund - Transfers Out	-	105,190	105,190
Prairieview Debt Service	136,283	165,639	29,356
Kingsman Sewer	53,980	58,780	4,800
Armory	42,000	70,570	28,570
Total	798,943	1,016,899	217,956

Criteria

N.D.C.C §40-40-15 states, “Except as otherwise provided in section 40-40-18, no municipal expenditure may be made nor liability incurred, and no bill may be paid for any purpose in excess of the appropriation made therefor in the final budget. Expenditures made, liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability of the members of the governing body who authorized the making, incurring, or issuing thereof or who were present when they were authorized and did not vote against authorizing the same.”

N.D.C.C. §57-15-31.1 further states, “No taxing district may certify any taxes or amend its current budget and no county auditor may accept a certification of taxes or amended budget after the tenth day of October of each year if such certification or amendment results in a change in the amount of tax levied. 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.”

Cause

The City of Hillsboro was unaware of N.D.C.C §40-40-15 and §57-15-31.1.

Effect

The City of Hillsboro may not be in compliance with N.D.C.C §40-40-15.

Repeat Finding

No.

Recommendation

We recommend the City of Hillsboro carefully review the applicable budget and any ensuing budget amendments to ensure compliance with N.D.C.C §40-40-15 and §57-15-31.1. Furthermore, we recommend the City of Hillsboro work with the City's attorney to resolve any current circumstances if deemed appropriate by management.

City of Hillsboro's Response

Agree. The City of Hillsboro will review budget to actuals to determine if budget amendments will be necessary at year-end. Furthermore, the City will work with City's attorney to resolve any current circumstances if deemed appropriate.

2019-005 ADJUSTING JOURNAL ENTRIES – MATERIAL WEAKNESS

Condition

Material auditor-identified adjusting entries in the amount of \$43,897.75 in FY2019 and \$31,938 in FY2018 to the financial statements were proposed and adjusted to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

The City of Hillsboro is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

The City of Hillsboro did not have proper documentation or approval from the board to support material entries made into the general ledger.

Effect

Inadequate internal controls over recording of transactions affects City of Hillsboro's ability to detect misstatements in amounts that could be material in relation to the financial statements.

Repeat Finding

No.

Recommendation

We recommend the City of Hillsboro maintain proper documentation and receive board approval for material entries to the general ledger to ensure fair presentation of the City of Hillsboro's financial statements.

City of Hillsboro's Response

Agree. The City of Hillsboro will maintain proper documentation and bring material entries to the board for review and approval.

2019-006 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

The City of Hillsboro has limited staff responsible for the primary accounting functions. A lack of segregation of duties exists as the city has one city auditor and one deputy auditor responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations.

Criteria

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates there should be sufficient accounting personnel, so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the City of Hillsboro.

Cause

Management has chosen to allocate its economic resources to other functions of the City of Hillsboro.

Effect

The lack of segregation of duties increases the risk of material misstatement to the City of Hillsboro's financial condition, whether due to error or fraud.

Repeat Finding

Yes.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Financial statements and credit memos should be reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.
- Include the board in reviewing bank reconciliations, credit memos, manual adjustments, etc.

City of Hillsboro's Response

Agree. The City of Hillsboro will segregate duties as it becomes feasible.

2019-007 FRAUD RISK ASSESSMENT – SIGNIFICANT DEFICIENCY

Condition

The City of Hillsboro does not currently prepare a fraud risk assessment of the entire entity.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Cause

The City of Hillsboro may not have considered preparing a fraud risk assessment.

Effect

If the City of Hillsboro does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Repeat Finding

No.

Recommendation

We recommend the City of Hillsboro prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

City of Hillsboro's Response

Agree. The City of Hillsboro will perform a fraud risk assessment.

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GOVERNANCE COMMUNICATION

Board of City Commissioners
City of Hillsboro
Hillsboro, North Dakota

We have audited the 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, for the years ended December 31, 2019 and 2018 which collectively comprise the City of Hillsboro's basic financial statements, and have issued our report thereon dated June 25, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated October 15, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Hillsboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

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 and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hillsboro are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended December 31, 2019 and 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

CITY OF HILLSBORO

Governance Communication - Continued

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

2019 Audit Adjustments	Client Provided Adjustments		Audit Adjustments		Total Adjustment	
	Debit	Credit	Debit	Credit	Debit	Credit
Governmental Activities						
<u>To reduce interest revenue</u>						
Interest revenue	-	-	43,898	-	43,898	-
Cash	-	-	-	43,898	-	43,898
<u>To move Unallocated Utilities from General Fund to Business Type Activities</u>						
Transfers	-	-	5,411	-	5,411	-
Cash	-	-	-	5,411	-	5,411
Business-Type Activities						
<u>To move Unallocated Utilities to Business Type Activities from General Fund</u>						
Cash	-	-	5,411	-	5,411	-
Transfers	-	-	-	5,411	-	5,411
2018 Audit Adjustments						
Governmental Activities						
<u>To remove duplicate payments</u>						
Cash	-	-	31,938	-	31,938	-
Expenditures	-	-	-	31,938	-	31,938
<u>To move Unallocated Utilities from General Fund to Business Type Activities</u>						
Transfers	-	-	105,190	-	105,190	-
Cash	-	-	-	105,190	-	105,190
Business-Type Activities						
<u>To restate beginning balance</u>						
Long-Term Debt - PPA	-	-	348,738	-	348,738	-
Expenditures - PPA	-	-	-	348,738	-	348,738
<u>To move Unallocated Utilities to Business Type Activities from General Fund</u>						
Cash	-	-	105,190	-	105,190	-
Transfers	-	-	-	105,190	-	105,190

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 25, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of City Commissioners and management of the City of Hillsboro, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the City of Hillsboro for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the City of Hillsboro.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
June 25, 2021



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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