

**HILLSBORO MUNICIPAL AIRPORT**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**WITH INDEPENDENT AUDITOR'S REPORT**

**HILLSBORO MUNICIPAL AIRPORT**  
**AIRPORT OFFICIALS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Page(s)</u>
Airport Officials	2
Independent Auditor's Report	3 - 4
 <b>BASIC FINANCIAL STATEMENTS</b>	
 <b>2019 and 2018</b>	
Statements of Net Position - Modified Cash Basis - 2019 and 2018	5
Statement of Activities - Modified Cash Basis - 2019	6
Statement of Activities - Modified Cash Basis - 2018	7
Balance Sheets - Modified Cash Basis - Governmental Funds - 2019 and 2018	8
Reconciliation of Governmental Funds Balance Sheets to the Statements of Net Position - Modified Cash Basis - 2019 and 2018	9
Statements of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis - Governmental Funds - 2019 and 2018	10
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis - 2019 and 2018	11 - 12
Notes to Financial Statements	13 - 18
 <b>SUPPLEMENTARY INFORMATION</b>	
Schedules of Expenditures of Federal Awards - Modified Cash Basis - 2019 and 2018	19
Notes to the Schedules of Expenditures of Federal Awards	20
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22
Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	23 - 24
Schedule of Findings and Questioned Costs	25 - 26
Management's Corrective Action Plan	27

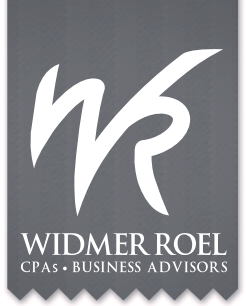
**HILLSBORO MUNICIPAL AIRPORT**  
**AIRPORT OFFICIALS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**December 31, 2019**

Larry Mueller	Chairman
Les Hurt	Treasurer
Randall Aarestad	Secretary
Terry Sando	Board Member
Don Hanson	Board Member

**December 31, 2018**

Larry Mueller	Chairman
Les Hurt	Treasurer
Randall Aarestad	Secretary
Terry Sando	Board Member
Don Hanson	Board Member



4334 18th Avenue S.  
Ste 101  
Fargo, ND 58103-7414

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

## INDEPENDENT AUDITOR’S REPORT

Board of Airport Commissioners  
**Hillsboro Municipal Airport**  
Hillsboro, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the **Hillsboro Municipal Airport** (Airport Authority), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Airport Authority’s basic financial statements as listed in the table of contents.

#### *Management’s Responsibility for the Financial Statements*

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

#### *Auditor’s Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the **Hillsboro Municipal Airport**, as of December 31, 2019 and 2018, and the respective changes in financial position – modified cash basis thereof for the years then ended in accordance with the basis of accounting described in Note 1.

***Basis of Accounting***

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

***Other Matters***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Hillsboro Municipal Airport’s** financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Information***

The testing of board authority members has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly we do not express an opinion or provide any assurance of them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2021, on our consideration of the **Hillsboro Municipal Airport’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 Airport’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 **Hillsboro Municipal Airport’s** internal control over financial reporting and compliance.



Fargo, North Dakota  
January 11, 2021

**HILLSBORO MUNICIPAL AIRPORT**  
**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 98,304	\$ 74,251
Capital assets, not being depreciated		
Land	843,964	843,964
Construction in progress	1,144,346	4,988,072
Capital assets net of accumulated depreciation		
Buildings	379,083	402,603
Improvements	<u>5,501,482</u>	<u>505,866</u>
Total assets	<u>\$ 7,967,179</u>	<u>\$ 6,814,756</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 7,868,875	\$ 6,740,505
Unrestricted	<u>98,304</u>	<u>74,251</u>
Total net position	<u>\$ 7,967,179</u>	<u>\$ 6,814,756</u>

**HILLSBORO MUNICIPAL AIRPORT**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Position Total
<b>GOVERNMENTAL ACTIVITIES</b>					
General Government	\$ <u>255,252</u>	\$ <u>-</u>	\$ <u>19,871</u>	\$ <u>1,338,998</u>	\$ <u>1,103,617</u>
<b>GENERAL REVENUES</b>					
Property taxes					\$ 27,904
Miscellaneous revenues					<u>20,902</u>
Total general revenues					\$ <u>48,806</u>
Change in net position					\$ <u>1,152,423</u>
Net position - January 1					\$ <u>6,814,756</u>
Net position - December 31					\$ <u>7,967,179</u>

**HILLSBORO MUNICIPAL AIRPORT**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Position Total
<b>GOVERNMENTAL ACTIVITIES</b>					
General Government	\$ <u>225,658</u>	\$ <u>-</u>	\$ <u>19,883</u>	\$ <u>5,156,914</u>	\$ <u>4,951,139</u>
<b>GENERAL REVENUES</b>					
Property taxes					24,571
Miscellaneous revenues					\$ <u>4,000</u>
Total general revenues					\$ <u>28,571</u>
Change in net position					\$ <u>4,979,710</u>
Net position - January 1					\$ <u>1,835,046</u>
Net position - December 31					\$ <u>6,814,756</u>



**HILLSBORO MUNICIPAL AIRPORT**

**BALANCE SHEETS – MODIFIED CASH BASIS – GOVERNMENTAL FUNDS  
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ <u>98,304</u>	\$ <u>74,251</u>
<b>FUND BALANCES</b>		
Unassigned		
General fund	\$ <u>98,304</u>	\$ <u>74,251</u>

**HILLSBORO MUNICIPAL AIRPORT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEETS**  
**TO THE STATEMENTS OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>Total fund balances for governmental funds</b>	\$ 98,304	\$ 74,251
<p>Total net position reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds</p>		
Cost of capital assets	10,939,260	9,592,234
Less accumulated depreciation	<u>(3,070,385)</u>	<u>(2,851,729)</u>
<b>Total net position of governmental activities</b>	<u>\$ 7,967,179</u>	<u>\$ 6,814,756</u>

**HILLSBORO MUNICIPAL AIRPORT**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
MODIFIED CASH BASIS – GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>REVENUES</b>		
Property taxes	\$ 27,904	\$ 24,571
Intergovernmental	1,338,998	5,156,914
Leases and rental income	19,871	19,883
Miscellaneous	<u>20,902</u>	<u>3,999</u>
Total revenues	<u>1,407,675</u>	<u>5,205,367</u>
<b>EXPENDITURES</b>		
General Government	<u>1,383,622</u>	<u>5,213,044</u>
Net change in fund balances	<u>24,053</u>	<u>(7,677)</u>
<b>FUND BALANCES - January 1</b>	<u>74,251</u>	<u>81,928</u>
<b>FUND BALANCES - December 31</b>	<u>\$ 98,304</u>	<u>\$ 74,251</u>

**HILLSBORO MUNICIPAL AIRPORT**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT  
OF ACTIVITIES – MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**Net change in fund balances - total governmental funds** \$ 24,053

Amount reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are:

Current year capital outlay	1,347,026	
Depreciation expense	<u>(218,656)</u>	<u>1,128,370</u>

**Change in net position of governmental activities** \$ 1,152,423

**HILLSBORO MUNICIPAL AIRPORT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT**  
**OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**Net change in fund balances - total governmental funds** \$ (7,677)

Amount reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are:

Current year capital outlay	5,183,506	
Depreciation expense	<u>(196,119)</u>	<u>4,987,387</u>

**Change in net position of governmental activities** \$ 4,979,710

**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

*Nature of Operations*

The Hillsboro Municipal Airport, Hillsboro, North Dakota (“Airport Authority”), operates under Chapter 2-06 of the North Dakota Century Code, as applicable to airport authorities. The accounting policy of the Hillsboro Municipal Airport is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. 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 Airport Authority’s accounting policies are described below.

*Reporting Entity*

The accompanying financial statements present the activities of the Hillsboro Municipal Airport. The Airport Authority has considered all potential component units for which the Airport Authority is financially accountable and other organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport Authority’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 Hillsboro Municipal Airport 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 Hillsboro Municipal Airport. Based on these criteria, there are no component units to be included within the Hillsboro Municipal Airport as a reporting entity.

*Basis of Presentation*

*Government-wide statements:* The statement of net position and the statement of activities display information about the primary government of the Hillsboro Municipal Airport. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Airport Authority’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 property taxes and miscellaneous revenues, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Airport Authority’s general fund. Separate statements for the fund category-*governmental* are presented. The emphasis of fund financial statements is on the major governmental fund, displayed in a separate column.

The Airport Authority reports the following major governmental fund:

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

**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

***Measurement Focus and Basis of Accounting***

Measurement focus is a term used to describe *how* transactions are recorded within the various financial statements. Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement of focus.

The government-wide financial statements are reported using the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the Airport Authority's financial statements. Only capital assets and long-term debt (when applicable) are recorded under the basis of accounting described above. They are included on the statement of net position.

***Cash and Cash Equivalents***

Hillsboro Municipal Airport's cash and cash equivalents are demand deposits. These amounts must be deposited in a financial institution situated and doing business within North Dakota.

***Capital Assets***

Capital assets include property, plant and equipment. Capital assets are reported in the governmental activities column of the government-wide financial statements. Capital assets are defined by the Airport Authority as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

General infrastructure assets are reported for that acquired and constructed after January 1, 2004 and are reported at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as infrastructure projects as they are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	25 to 100 years
Improvements	40 years
Equipment	5 to 20 years

**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

***Fund Balances***

The order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned. Fund Balance Reporting and Governmental Fund Type Definitions GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

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

The Airport Authority reports unassigned fund balance in the balance sheet in the general fund at each year-end. The Airport Authority has no other funds to report.

***Net Position***

When both restricted and unrestricted resources are available for use, it is the Airport Authority's policy to first use restricted resources first, then unrestricted resources as they are needed. Net investment in capital assets in the statement of net position is shown for capital assets less accumulated depreciation, and less any related debt used to finance the purchase and construction of those capital assets. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending. Unrestricted net position consists of activity related to the general fund and is available to meet the Airport Authority's ongoing obligations.



**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. 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 the year ended December 31, 2019, the Airport Authority's carrying amount of deposits was \$98,304 and the bank balances were \$98,304. At the year ended December 31, 2018, the Airport Authority's carrying amount of deposits was \$74,251 and the bank balances were \$76,974. All balances were covered by Federal Depository Insurance.

**NOTE 3 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets not being depreciated					
Land	\$ 843,964	\$ -	\$ -	\$ -	\$ 843,964
Construction in progress	4,988,072	1,347,026	(5,190,752)	-	1,144,346
Total capital assets not being depreciated	<u>5,832,036</u>	<u>1,347,026</u>	<u>(5,190,752)</u>	<u>-</u>	<u>1,988,310</u>
Capital assets, being depreciated					
Buildings	646,786	-	-	-	646,786
Equipment	346,679	-	-	-	346,679
Improvements	2,766,733	-	5,190,752	-	7,957,485
Total capital assets, being depreciated	<u>3,760,198</u>	<u>-</u>	<u>5,190,752</u>	<u>-</u>	<u>8,950,950</u>

(Continued)

**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Less accumulated depreciation for					
Buildings	244,183	23,520	-	-	267,703
Equipment	346,679	-	-	-	346,679
Improvements	<u>2,260,867</u>	<u>195,136</u>	<u>-</u>	<u>-</u>	<u>2,456,003</u>
Total accumulated depreciation	<u>2,851,729</u>	<u>218,656</u>	<u>-</u>	<u>-</u>	<u>3,070,385</u>
Total capital assets, being depreciated, net	<u>908,469</u>	<u>(218,656)</u>	<u>5,190,752</u>	<u>-</u>	<u>5,880,565</u>
Governmental activities capital assets, net	\$ <u>6,740,505</u>	\$ <u>1,128,370</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,868,875</u>

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets not being depreciated					
Land	\$ 829,464	\$ 14,500	\$ -	\$ -	\$ 843,964
Construction in progress	<u>261,222</u>	<u>5,169,006</u>	<u>(442,156)</u>	<u>-</u>	<u>4,988,072</u>
Total capital assets not being depreciated	<u>1,090,686</u>	<u>5,183,506</u>	<u>(442,156)</u>	<u>-</u>	<u>5,832,036</u>
Capital assets, being depreciated					
Buildings	646,786	-	-	-	646,786
Equipment	346,679	-	-	-	346,679
Improvements	<u>2,324,577</u>	<u>-</u>	<u>442,156</u>	<u>-</u>	<u>2,766,733</u>
Total capital assets, being depreciated	<u>3,318,042</u>	<u>-</u>	<u>442,156</u>	<u>-</u>	<u>3,760,198</u>
Less accumulated depreciation for					
Buildings	220,663	23,520	-	-	244,183
Equipment	343,790	2,889	-	-	346,679
Improvements	<u>2,091,157</u>	<u>169,710</u>	<u>-</u>	<u>-</u>	<u>2,260,867</u>
Total accumulated depreciation	<u>2,655,610</u>	<u>196,119</u>	<u>-</u>	<u>-</u>	<u>2,851,729</u>
Total capital assets, being depreciated, net	<u>662,432</u>	<u>(196,119)</u>	<u>442,156</u>	<u>-</u>	<u>908,469</u>
Governmental activities capital assets, net	\$ <u>1,753,118</u>	\$ <u>4,987,387</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,740,505</u>

Depreciation expense totaling \$218,656 and \$196,119 for 2019 and 2018 respectively was charged to the General Government function.

**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 4 – RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Airport Authority pays an annual premium to NDRIF for its auto insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence for automobile coverage and actual cash value or cost of repair for auto coverage. The Hillsboro Municipal Airport purchases commercial insurance for general liability which has an aggregate limit of two million through Northstar Aviation Insurance.

The Hillsboro Municipal Airport also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Airport Authority 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 one million dollars per occurrence during a 12-month period.

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

**NOTE 5 – RELATED PARTIES**

The Airport Authority has its bank accounts at Red River State Bank in Halstad, MN; all balances were fully FDIC insured as of December 31, 2019 and 2018. Two of the Airport Authority's board members are employed at Red River State Bank or divisions thereof.

**NOTE 6 – CONSTRUCTION COMMITMENTS**

The Airport Authority had outstanding construction commitments at December 31, 2019 of \$514,475, including \$117,702 of retainage payable on completed work in progress. The Airport Authority had construction commitments of \$221,424 at December 31, 2018.

**NOTE 7 – SUBSEQUENT EVENTS**

The Airport Authority's management believes it understands its risks associated with COVID-19. The Airport Authority is in the process of implementing risk mitigation tactics as to the potential impact, if any, on the Airport Authority related to its business transactions with vendors and general human interactions.

# **HILLSBORO MUNICIPAL AIRPORT**

## **SUPPLEMENTARY INFORMATION**

**HILLSBORO MUNICIPAL AIRPORT**

**SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS – MODIFIED CASH BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

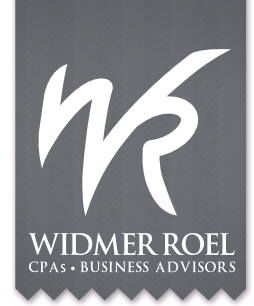
<b>Federal Grantor/ Pass- Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>2019</b>	<b>2018</b>
U.S. Federal Aviation Administration Airport Improvement Program	20.106	None	\$ <u>1,215,193</u>	\$ <u>4,634,267</u>

**HILLSBORO MUNICIPAL AIRPORT**  
**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1 - BASIS OF PRESENTATION / ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hillsboro Municipal Airport Authority and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The Airport Authority received federal awards both directly and indirectly through pass-through entities. The Airport Authority has not provided any federal financial assistance to subrecipients.

The Airport Authority has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



4334 18th Avenue S.  
Ste 101  
Fargo, ND 58103-7414

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

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

Board of Directors of the Municipal Airport Authority  
**Hillsboro Municipal Airport**  
Hillsboro, North Dakota

We have audited, 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, the financial statements of the governmental activities and major fund of **Hillsboro Municipal Airport** as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise **Hillsboro Municipal Airport's** basic financial statements, and have issued our report thereon dated January 11, 2021.

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 and questioned costs*, we did identify certain deficiencies in internal control that we consider to be material weaknesses as items 2019-001 and 2019-002.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Hillsboro Municipal Airport** 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Hillsboro Municipal Airport's Response to Findings**

**Hillsboro Municipal Airport's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Hillsboro Municipal Airport'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.

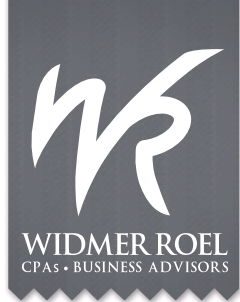
## **Purpose of this Report**

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.



Fargo, North Dakota  
January 11, 2021





4334 18th Avenue S.  
Ste 101  
Fargo, ND 58103-7414

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE; REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
**Hillsboro Municipal Airport**  
Hillsboro, North Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited **Hillsboro Municipal Airport's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on **Hillsboro Municipal Airport's** major federal program for the years ended December 31, 2019 and 2018. **Hillsboro Municipal Airport's** major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of **Hillsboro Municipal Airport's** major federal program based on our audits of the types of compliance requirements referred to above. We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Hillsboro Municipal Airport's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of **Hillsboro Municipal Airport's** compliance.

## Opinion on Each Major Federal Program

In our opinion, **Hillsboro Municipal Airport** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the years ended December 31, 2019 and 2018.

## Report on Internal Control over Compliance

Management of **Hillsboro Municipal Airport** is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Hillsboro Municipal Airport's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Hillsboro Municipal Airport's** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Fargo, North Dakota  
January 11, 2021

**HILLSBORO MUNICIPAL AIRPORT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u>      </u> yes	<u>  X  </u> none reported
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	<u>      </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u>      </u> yes	<u>  X  </u> none reported

Type of auditor’s report issued on compliance for major programs:	
Airport Improvement Program (CFDA 20.106)	Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a)?	<u>      </u> yes	<u>  X  </u> no
--	-------------------	-----------------

Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program</b>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:	<u>  \$750,000  </u>
--	----------------------

Auditee qualified as <u>low-risk</u> auditee?	<u>      </u> yes	<u>  X  </u> no
---	-------------------	-----------------

# HILLSBORO MUNICIPAL AIRPORT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### 2019-001 (MATERIAL WEAKNESS) – SEGREGATION OF DUTIES

##### *Condition*

The limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

##### *Criteria*

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

##### *Cause*

The Airport Authority operates on a very small operating budget and relies strictly on volunteers for its management and governance. It does not have access to sufficient resources to fully segregate financial responsibilities.

##### *Effect*

There is an increased risk of errors, fraud or noncompliance which could be material to the financial statements.

##### *Recommendation*

This condition is not unusual in small government entities, and our audit procedures found that the volunteer board is actively involved in the financial and other matters of the Airport Authority. However, we recommend the governing board be aware of the risk associated with the size of the organization, and continue to exercise oversight.

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. We recommend that the Airport Authority implement and/or continue the following:

- Continue to review and approve all significant financial transactions. Include or attach listing of transactions with official minutes.
- Continue to review detailed financial statements of the Airport Authority on a regular basis
- Continue to review and approve all significant contracts and agreements
- Consider having checks signed by a board member other than treasurer (this may, but need not necessarily include implementation of dual signatures on checks)
- Consider having a separate board member review and initial bank reconciliations

##### *Views of Responsible Officials*

The board will adopt additional oversight procedures to help ensure internal control over airport expenditures.

## **HILLSBORO MUNICIPAL AIRPORT**

### **MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

#### **2019-002 (MATERIAL WEAKNESS) – FINANCIAL STATEMENT PREPARATION**

##### ***Condition***

Widmer Roel PC assists management in preparing financial statements that are presented, including note disclosures and the schedule of expenditures of federal awards, in conformity with the modified cash basis of accounting.

##### ***Criteria***

As a matter of internal control, management should be responsible for and capable of preparing financial statements, notes to the financial statements, and the schedule of expenditures of federal awards in conformity with generally accepted accounting principles.

##### ***Cause***

The board feels that it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would be necessary.

##### ***Effect***

Without the assistance of the auditors, the financial statements and the schedule of expenditures of federal awards could be misstated or omit material financial statement disclosures.

##### ***Recommendation***

We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

##### ***Views of Responsible Officials***

The board will take this under consideration.

**HILLSBORO REGIONAL AIRPORT  
PO BOX 242  
HILLSBORO, ND 58045**

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION**

The Hillsboro Municipal Airport respectfully submits the following views of responsible officials and planned corrective action for the years ended December 31, 2019 and 2018.

Name and address of independent public accounting firm:

Widmer Roel PC  
4334 18<sup>th</sup> Avenue S, Suite 101  
Fargo, ND 58103-7414

Audit period: December 31, 2019 and 2018

The findings from the December 31, 2019 2018 Schedule of Findings and Responses are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**2019-001 (MATERIAL WEAKNESS) – SEGREGATION OF DUTIES**

***Condition***

The limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

***Criteria***

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

***Cause***

The airport authority operates on a very small operating budget and relies strictly on volunteers for its management and governance. It does not have access to sufficient resources to fully segregate financial responsibilities.

***Effect***

There is an increased risk of errors, fraud or noncompliance which could be material to the financial statements.

***Recommendation***

This condition is not unusual in small government entities, and our audit procedures found that the volunteer board is actively involved in the financial and other matters of the Airport Authority. However, we recommend the governing board be aware of the risk associated with the size of the organization, and continue to exercise oversight

(Continued)

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. We recommend that the Airport Authority implement and/or continue the following:

- Continue to review and approve all significant financial transactions. Include or attach listing of transactions with official minutes.
- Continue to review detailed financial statements of the airport authority on a regular basis
- Continue to review and approve all significant contracts and agreements
- Consider having checks signed by a board member other than treasurer (this may, but need not necessarily include implementation of dual signatures on checks)
- Consider having a separate board member review and initial bank reconciliations

### ***Corrective Action***

From the minutes of Nov. 17<sup>th</sup>, 2020

Don moved to approve a new blanket policy that all normal airport expenses of \$ 10,000 or less can be paid without prior approval of the Airport Authority, Terry 2<sup>nd</sup>, Carried. All expenses over \$ 10,000 for any type of expenses will require prior authority approval before payment and require dual signatures on the payment check for these large expenditures.

## **2019-002 (MATERIAL WEAKNESS) – FINANCIAL STATEMENT PREPARATION**

### ***Condition***

Widmer Roel PC assists management in preparing financial statements that are presented, including note disclosures and the schedule of expenditures of federal awards, in conformity with the modified cash basis of accounting.

### ***Criteria***

As a matter of internal control, management should be responsible for and capable of preparing financial statements, notes to the financial statements, and the schedule of expenditures of federal awards in conformity with generally accepted accounting principles.

### ***Cause***

The board feels that it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would be necessary.

### ***Effect***

Without the assistance of the auditors, the financial statements and the schedule of expenditures of federal awards could be misstated or omit material financial statement disclosures.

### ***Recommendation***

We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

### ***Corrective Action***

(Continued)

*This is under consideration of the Airport Authority.*

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Larry Mueller". The signature is fluid and cursive, with a large initial "L" and "M".

Larry Mueller, Chairman  
Hillsboro Municipal Airport Authority