

HILLSBORO MUNICIPAL AIRPORT

**FINANCIAL STATEMENTS
DECEMBER 31, 2021**

WITH INDEPENDENT AUDITOR'S REPORT

HILLSBORO MUNICIPAL AIRPORT
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FOR THE YEAR ENDED DECEMBER 31, 2021

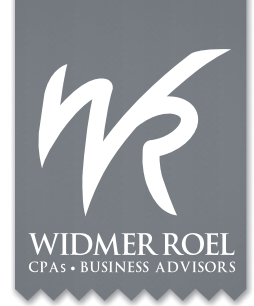
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**HILLSBORO MUNICIPAL AIRPORT
BOARD OF AIRPORT COMMISSIONERS
FOR THE YEAR ENDED DECEMBER 31, 2021**

December 31, 2021

Larry Mueller
Les Hurt
Randall Aarestad
Justin Kleckner
Don Hanson

Chairman
Treasurer
Secretary
Board Member
Board Member



4220 31st Avenue S.
Fargo, ND 58104-8725

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 Audit of the Financial Statements

Opinions

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 year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the **Hillsboro Municipal Airport’s** basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and major fund of **Hillsboro Municipal Airport** as of December 31, 2021, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Hillsboro Municipal Airport**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the **Hillsboro Municipal Airport's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Hillsboro Municipal Airport's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Hillsboro Municipal Airport's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

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 basic 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

Management is responsible for the other information included in the annual report. The other information comprises the list of board of airport commissioners but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2022, 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
November 22, 2022

HILLSBORO MUNICIPAL AIRPORT
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2021

ASSETS

Cash and cash equivalents	\$	59,153
Capital assets, not being depreciated		
Land		829,464
Construction in progress		2,176,607
Capital assets net of accumulated depreciation		
Buildings		1,024,330
Equipment		20,758
Improvements		<u>6,309,151</u>
Total assets	\$	<u><u>10,419,463</u></u>

LIABILITIES

Current portion of long-term debt	\$	8,617
Long-term liabilities		
Long-term debt, net of current portion		<u>340,673</u>
Total liabilities		<u><u>349,290</u></u>

NET POSITION

Net investment in capital assets		10,011,020
Unrestricted		<u>59,153</u>
Total net position		<u><u>10,070,173</u></u>
Total liabilities and net position	\$	<u><u>10,419,463</u></u>

HILLSBORO MUNICIPAL AIRPORT
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2021

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Position Total
GOVERNMENTAL ACTIVITIES					
General Government	\$ <u>590,595</u>	\$ <u>-</u>	\$ <u>27,170</u>	\$ <u>1,105,350</u>	\$ <u>541,925</u>
GENERAL REVENUES					
					31,611
					<u>49,631</u>
					81,242
					<u>623,167</u>
					<u>9,447,006</u>
					\$ <u>10,070,173</u>

HILLSBORO MUNICIPAL AIRPORT
BALANCE SHEET – MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
DECEMBER 31, 2021

ASSETS

Cash and cash equivalents \$ 59,153

FUND BALANCES

Unassigned
General fund \$ 59,153

HILLSBORO MUNICIPAL AIRPORT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2021

Total fund balances for governmental funds	\$	59,153
<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		12,631,098
Less accumulated depreciation		(2,270,788)
<p>Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds</p>		
Long-term debt		<u>(349,290)</u>
Total net position of governmental activities	\$	<u><u>10,070,173</u></u>

HILLSBORO MUNICIPAL AIRPORT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
– MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

REVENUES

Property taxes	\$ 31,611
State revenue	328,131
Federal revenue	777,219
Leases and rental income	27,170
Miscellaneous	49,633
	<hr/>
Total revenues	1,213,764

EXPENDITURES

General government	824,987
Capital outlay	719,299
Debt service	
Principal	710
Interest	597
	<hr/>
Total expenditures	1,545,593

Deficiency of revenues over expenditures (331,829)

OTHER FINANCING SOURCES

Bond proceeds	<u>350,000</u>
Net change in fund balances	<u>18,171</u>

FUND BALANCES - January 1 40,982

FUND BALANCES - December 31 \$ 59,153

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, 2021**

Net change in fund balances - total governmental funds		\$	18,171
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	1,399,571		
Depreciation expense	<u>(445,285)</u>		954,286
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			<u>(349,290)</u>
Change in net position of governmental activities		\$	<u><u>623,167</u></u>

HILLSBORO MUNICIPAL AIRPORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

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. 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 YEAR ENDED DECEMBER 31, 2021

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 YEAR ENDED DECEMBER 31, 2021

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as assets and amortized over the term of the related debt.

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

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.

<i>CLASSIFICATION</i>	<i>DEFINITION</i>	<i>EXAMPLES</i>
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.

(Continued)

HILLSBORO MUNICIPAL AIRPORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

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.

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, 2021, the Airport Authority's carrying amount of deposits was \$59,153 and the bank balances were \$62,313. All cash balances were covered by FDIC insurance.

HILLSBORO MUNICIPAL AIRPORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2021:

	<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	\$ -	\$ -	\$ -	\$ 829,464
Construction in progress	<u>3,123,439</u>	<u>680,274</u>	<u>(1,627,106)</u>	<u>-</u>	<u>2,176,607</u>
Total capital assets not being depreciated	<u>3,952,903</u>	<u>680,274</u>	<u>(1,627,106)</u>	<u>-</u>	<u>3,006,071</u>
Capital assets, being depreciated					
Buildings	646,786	694,391	-	-	1,341,177
Equipment	321,679	24,909	-	-	346,588
Improvements	<u>6,310,156</u>	<u>-</u>	<u>1,627,106</u>	<u>-</u>	<u>7,937,262</u>
Total capital assets, being depreciated	<u>7,278,621</u>	<u>719,300</u>	<u>1,627,106</u>	<u>-</u>	<u>9,625,027</u>
Less accumulated depreciation for					
Buildings	291,223	25,624	-	-	316,847
Equipment	321,679	4,151	-	-	325,830
Improvements	<u>1,212,601</u>	<u>415,510</u>	<u>-</u>	<u>-</u>	<u>1,628,111</u>
Total accumulated depreciation	<u>1,825,503</u>	<u>445,285</u>	<u>-</u>	<u>-</u>	<u>2,270,788</u>
Total capital assets, being depreciated, net	<u>5,453,118</u>	<u>274,015</u>	<u>1,627,106</u>	<u>-</u>	<u>7,354,239</u>
Governmental activities capital assets, net	<u>\$ 9,406,021</u>	<u>\$ 954,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,360,310</u>

Depreciation expense totaling \$445,285 for 2021 was charged to the General Government function.

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended December 31, 2021, the following changes occurred in liabilities reported in the long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 710</u>	<u>\$ 349,290</u>	<u>\$ 8,617</u>

Outstanding debt at December 31, 2021 consists of the following issues:

\$350,000 Airport Revenue Bond, Series 2021 dated November 1, 2021 due in monthly installments of \$1,293, including interest, on December 1, 2021 through 2051 with interest at 2%.

\$ 349,290

HILLSBORO MUNICIPAL AIRPORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

Debt service requirements on the Infrastructure Revolving Loan is as follows:

	Principal	Interest	Total
2022	\$ 8,617	\$ 6,907	\$ 15,524
2023	8,791	6,733	15,524
2024	8,968	6,556	15,524
2025	9,149	6,375	15,524
2026	9,334	6,190	15,524
2027-2031	49,573	28,047	77,620
2032-2036	54,782	22,838	77,620
2037-2041	60,539	17,081	77,620
2042-2046	66,900	10,720	77,620
2047-2051	72,637	3,690	76,327
	\$ 349,290	\$ 115,137	\$ 464,427

NOTE 5 – 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 6 – 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, 2021. Two of the Airport Authority’s board members are employed at Red River State Bank or divisions thereof.

NOTE 7 – CONSTRUCTION COMMITMENTS

The Airport Authority had outstanding construction commitments at December 31, 2021 of \$413,158.

HILLSBORO MUNICIPAL AIRPORT

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

HILLSBORO MUNICIPAL AIRPORT

**SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS – MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2021**

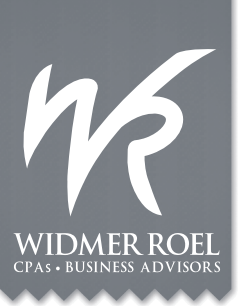
Federal Grantor/ Pass- Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	2021
U.S. Federal Aviation Administration COVID-19 - Airport Improvement Program	20.106	None	\$ 73,789
Airport Improvement Program	20.106	None	<u>703,430</u>
Total U.S. Federal Aviation Administration			\$ <u><u>777,219</u></u>

HILLSBORO MUNICIPAL AIRPORT
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEARS ENDED DECEMBER 31, 2021

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.



4220 31st Avenue S.
Fargo, ND 58104-8725

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 Airport Commissioners
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, 2021, 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 November 22, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, 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 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 and questioned costs as items 2021-001 and 2021-002 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 deficiencies described in the accompanying schedule of audit findings and questioned costs as item 2021-003 to be a significant deficiency.

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

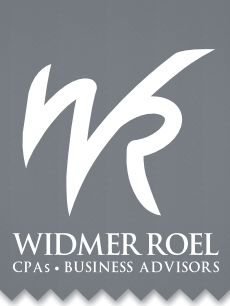
Hillsboro Municipal Airport's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Hillsboro Municipal Airport's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, 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
November 22, 2022



4220 31st Avenue S.
Fargo, ND 58104-8725

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 Airport Commissioners
Hillsboro Municipal Airport
Hillsboro, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on the 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 year ended December 31, 2021. **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.

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, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of **Hillsboro Municipal Airport** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidences we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of **Hillsboro Municipal Airport’s** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to **Hillsboro Municipal Airport's** major federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on **Hillsboro Municipal Airport's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about **Hillsboro Municipal Airport's** compliance with the requirements of the major federal program.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding **Hillsboro Municipal Airport's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of **Hillsboro Municipal Airport's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 **Hillsboro Municipal Airport's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* require the auditor to perform limited procedures on **Hillsboro Municipal Airport's** response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. **Hillsboro Municipal Airport's** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
November 22, 2022

HILLSBORO MUNICIPAL AIRPORT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified-Modified Cash Basis	
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> X </u> yes	<u> </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
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Identification of major programs:

CFDA Number	Name of Federal Program
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:	<u> \$750,000 </u>
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Auditee qualified as <u>low-risk</u> auditee?	<u> </u> yes	<u> X </u> no
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HILLSBORO MUNICIPAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

2021-001 (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 local airport is run off of volunteer staff and has no resources to hire full time accounting staff. The board will continue to offer as much oversight as possible including monthly review of financial statements and all transactions.

HILLSBORO MUNICIPAL AIRPORT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2021

2021-002 (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 airport board understands this risk and will continue to review financial statements at each meeting. We will continue to utilize Widmer Roel to audit when required.

2021-003 (SIGNIFICANT DEFICIENCY) – DEBT COVENANT

Condition

As of December 31, 2021, management did not create a separate debt service fund to account for debt service revenues and principal and interest payments related to the Airport Revenue Bond, Series 2021.

Criteria

The bond covenants state that management is required to maintain a designated debt service fund to be used for no purpose other than the payment of principal and interest.

HILLSBORO MUNICIPAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

Cause

Management was unaware that a separate debt service fund needed to be created.

Effect

The Airport Authority may be in violation of a covenant of the loan agreement.

Recommendation

We recommend that management discuss with the lender what would be adequate in terms of fulfilling the separate debt service fund requirement.

Views of Responsible Officials

Randy Aarestad, secretary, has reviewed this with the Bank of North Dakota. The airport will work with our local bank as well as the Bank of North Dakota to be compliant with the covenant.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS FINDINGS

NONE NOTED

HILLSBORO MUNICIPAL AIRPORT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2021

2020-001 (MATERIAL WEAKNESS) – SEGREGATION OF DUTIES

Condition

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

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 reconciliation.

Current Status

The board has adopted additional oversight procedures to help ensure internal control over airport expenditures, but due to a limited number of board members, the finding remains open.

2020-002 (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.

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.

Current Status

The board has taken this into consideration. The finding remains open.

Hillsboro Municipal 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, 2021.

Name and address of independent public accounting firm:

Widmer Roel PC
4220 31st Avenue S
Fargo, ND 58104

Audit period: December 31, 2021

Contact Person: Justin Kleckner, Chairman

The findings from the December 31, 2021 Schedule of Findings and Responses are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2021-001 (MATERIAL WEAKNESS) – SEGREGATION OF DUTIES

Condition

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

Views of Responsible Officials and Corrective Action Plan

The local airport is run off of volunteer staff and has no resources to hire full time accounting staff. The board will continue to offer as much oversight as possible including monthly review of financial statements and all transactions.

Anticipated Completion Date: N/A

2021-002 (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.

(Continued)

Views of Responsible Officials and Corrective Action Plan

The airport board understands this risk and will continue to review financial statements at each meeting. We will continue to utilize Widmer Roel to audit when required.

Anticipated Completion Date: N/A

2021-003 (SIGNIFICANT DEFICIENCY) – DEBT COVENANT

Condition

As of December 31, 2021, management did not create a separate debt service fund to pay for principal and interest related to the Infrastructure Revolving Loan, Series 2021.

Views of Responsible Officials and Corrective Action Plan

Randy Aarestad, secretary, has reviewed this with the Bank of North Dakota. The airport will work with out local bank as well as the Bank of North Dakota to be compliant with the covenant.

Anticipated Completion Date: Immediate

Sincerely yours,

A handwritten signature in black ink, appearing to read "Justin Kleckner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Justin Kleckner, Chairman
Hillsboro Municipal Airport