



Financial Statements
December 31, 2022, 2021, and 2020
City of Hillsboro, North Dakota

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City of Hillsboro, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2022, 2021, and 2020

December 31, 2022

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Levi Reese	President	2026
Dave Sather	Vice President	2026
Nicole Evans	City Commissioner	2026
Paul Geray	City Commissioner	2024
Mike Kress	City Commissioner	2024

December 31, 2021

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Terry Sando	President	2022
Levi Reese	Vice President	2022
Paul Geray	City Commissioner	2024
Mike Kress	City Commissioner	2024
Dave Sather	City Commissioner	2022

December 31, 2020

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Terry Sando	President	2022
Levi Reese	Vice President	2022
Mike Kress	City Commissioner	2024
Dave Sather	City Commissioner	2022
Shawn Skager	City Commissioner	2024



Independent Auditor's Report

Board of City Commissioners
City of Hillsboro, North Dakota

Report on the Audit of the Financial Statements

Adverse, Qualified and Unmodified Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, North Dakota ("the City"), as of and for the years ended December 31, 2022, 2021, and 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on Governmental Activities, Business-Type Activities, and Major Business-Type Funds as of and for the Years Ended December 31, 2022, 2021, and 2020

In our opinion, because of the significance of the matter discussed in the Basis for Adverse, Qualified, and Unmodified Opinions section of our report, the accompanying financial statements referred to above do not present fairly, the respective modified cash basis financial position of the governmental activities, business-type activities, and the major business-type funds of the City, as of December 31, 2022, 2021, and 2020, or the respective changes in modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Qualified Opinions on the Major Governmental Funds and the Aggregate Remaining Governmental Fund Information as of and for the Year Ended December 31, 2020

In our opinion, except for the effects of the matter described in the Basis for Adverse, Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each major governmental fund and the aggregate remaining governmental fund information of the City, as of December 31, 2020, and the respective changes in modified cash basis financial position and the respective budgetary comparison for the general, highway tax, and city sales tax funds for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Unmodified Opinions on the Major Governmental Funds and the Aggregate Remaining Governmental Fund Information as of and for the Years Ended December 31, 2022 and 2021

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each major governmental fund and the aggregate remaining governmental fund information of the City, as of December 31, 2022 and 2021, and the respective changes in modified cash basis financial position and the respective budgetary comparison for the general, highway tax, and city sales tax funds for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Adverse, Qualified and Unmodified 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 (*Government Auditing Standards*). 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 the City 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 adverse, qualified, and unmodified audit opinions.

Matter Giving Rise to Adverse Opinions on the Governmental Activities, Business-Type Activities, and Major Business-Type Funds as of and for the Years Ended December 31, 2022, 2021, and 2020

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

Matter Giving Rise to Qualified Opinions on the Major Governmental Funds and the Aggregate Remaining Governmental Fund Information as of and for the Year Ended December 31, 2020

Management did not maintain adequate accounting records for its revenues and expenditures in the major governmental funds and aggregate remaining governmental fund information of the City for the year ended December 31, 2020. We were unable to obtain sufficient appropriate audit evidence to support transactions for various receipts and disbursements.

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 basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified 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.

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 judgment 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 City'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 City'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.

Other Information

Management is responsible for the other information included in the report. The other information comprises the listing of elected and appointed officials 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 May 7, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
May 7, 2024

City of Hillsboro, North Dakota
Statement of Net Position – Modified Cash Basis
December 31, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 3,577,882	\$ 531,269	\$ 4,109,151
Restricted cash	-	181,250	181,250
Total assets	<u>3,577,882</u>	<u>712,519</u>	<u>4,290,401</u>
Liabilities			
Long-term liabilities			
Due within one year	708,212	160,000	868,212
Due in more than one year	<u>4,103,598</u>	<u>1,195,000</u>	<u>5,298,598</u>
Total liabilities	<u>4,811,810</u>	<u>1,355,000</u>	<u>6,166,810</u>
Net Position			
Restricted for:			
Public works	58,865	-	58,865
Economic development	541,276	-	541,276
Capital improvements	1,639,318	-	1,639,318
Unrestricted	<u>(3,473,387)</u>	<u>(642,481)</u>	<u>(4,115,868)</u>
Total net position	<u>\$ (1,233,928)</u>	<u>\$ (642,481)</u>	<u>\$ (1,876,409)</u>

City of Hillsboro, North Dakota
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 507,456	\$ 68,387	\$ -	\$ -	\$ (439,069)	\$ -	\$ (439,069)
Public safety	214,537	-	-	-	(214,537)	-	(214,537)
Public works	1,095,537	18,250	-	-	(1,077,287)	-	(1,077,287)
Culture and recreation	163,682	-	-	-	(163,682)	-	(163,682)
Economic development	328,460	-	-	-	(328,460)	-	(328,460)
Miscellaneous	23,381	-	-	-	(23,381)	-	(23,381)
Interest and fees on long-term debt	107,652	-	-	-	(107,652)	-	(107,652)
Total governmental activities	<u>2,440,705</u>	<u>86,637</u>	<u>-</u>	<u>-</u>	<u>(2,354,068)</u>	<u>-</u>	<u>(2,354,068)</u>
Business-type activities							
Water	798,709	732,003	-	-	-	(66,706)	(66,706)
Electric	2,408,716	2,433,310	-	-	-	24,594	24,594
Sewer	337,257	118,995	-	-	-	(218,262)	(218,262)
Sanitation	319,882	265,105	-	-	-	(54,777)	(54,777)
Total business-type activities	<u>3,864,564</u>	<u>3,549,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(315,151)</u>	<u>(315,151)</u>
Total Government	<u>\$ 6,305,269</u>	<u>\$ 3,636,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,354,068)</u>	<u>(315,151)</u>	<u>(2,669,219)</u>
General revenues							
Property taxes					374,197	-	374,197
Special assessments					487,030	-	487,030
Sales tax					631,048	-	631,048
State aid					497,207	-	497,207
Investment earnings					17,269	777	18,046
Miscellaneous					76,160	281,989	358,149
Transfers					294,000	(294,000)	-
Total general revenue and transfers					<u>2,376,911</u>	<u>(11,234)</u>	<u>2,365,677</u>
Change in net position					22,843	(326,385)	(303,542)
Net position - beginning					<u>(1,256,771)</u>	<u>(316,096)</u>	<u>(1,572,867)</u>
Net position - ending					<u>\$ (1,233,928)</u>	<u>\$ (642,481)</u>	<u>\$ (1,876,409)</u>

City of Hillsboro, North Dakota

Governmental Funds

Balance Sheet – Modified Cash Basis

December 31, 2022

	<u>General</u>	<u>Highway Tax</u>	<u>City Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Cash and investments	\$ -	\$ -	\$ -	\$ 2,123,428	\$ 1,454,454	\$ -	\$ 3,577,882
Due from other funds	-	-	541,227	-	184,864	97,924	824,015
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,227</u>	<u>\$ 2,123,428</u>	<u>\$ 1,639,318</u>	<u>\$ 97,924</u>	<u>\$ 4,401,897</u>
Liabilities and Fund Balances							
Liabilities							
Due to other funds	<u>\$ 616,709</u>	<u>\$ 207,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 824,015</u>
Fund Balances							
Restricted for							
Public safety						52	52
Public works	-	-	-	-	-	58,865	58,865
Culture and recreation	-	-	-	-	-	60,282	60,282
Economic development	-	-	541,227	-	-	49	541,276
Debt service	-	-	-	2,123,428	-	-	2,123,428
Capital improvements	-	-	-	-	1,639,318	-	1,639,318
Unassigned	<u>(616,709)</u>	<u>(207,306)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,324)</u>	<u>(845,339)</u>
Total fund balance (deficit)	<u>(616,709)</u>	<u>(207,306)</u>	<u>541,227</u>	<u>2,123,428</u>	<u>1,639,318</u>	<u>97,924</u>	<u>3,577,882</u>
Total liabilities and fund balances (deficits)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,227</u>	<u>\$ 2,123,428</u>	<u>\$ 1,639,318</u>	<u>\$ 97,924</u>	<u>\$ 4,401,897</u>

City of Hillsboro, North Dakota

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position – Modified Cash Basis

December 31, 2022

Total Fund Balances – Governmental Funds	\$ 3,577,882
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:	
Special assessment bonds	(3,720,000)
Temporary revenue bonds	(585,000)
State revolving loans	(175,000)
Direct borrowings	<u>(331,810)</u>
Total Net Position – Governmental Activities	<u>\$ (1,233,928)</u>

City of Hillsboro, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis

Year Ended December 31, 2022

	General	Highway Tax	City Sales Tax	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues							
General property taxes	\$ 322,464	\$ 4,298	\$ -	\$ -	\$ -	\$ 47,435	\$ 374,197
Sales tax	-	-	250,669	250,669	-	129,710	631,048
Special assessments	-	-	-	487,030	-	-	487,030
Licenses, permits, and fees	60,445	-	-	-	-	-	60,445
Intergovernmental	150,947	91,982	-	-	254,278	-	497,207
Charges for services	-	-	-	-	-	18,250	18,250
Fines and forfeitures	1,984	-	-	5,958	-	-	7,942
Interest income	10,413	-	403	313	-	6,140	17,269
Miscellaneous	36,150	3,382	23,889	-	-	12,739	76,160
Total revenues	582,403	99,662	274,961	743,970	254,278	214,274	2,169,548
Expenditures							
Current							
General government	507,456	-	-	-	-	-	507,456
Public safety	212,273	-	-	-	-	2,264	214,537
Public works	-	383,525	-	-	-	55,706	439,231
Culture and recreation	134,734	-	-	-	-	28,948	163,682
Economic development	-	-	181,561	-	-	146,899	328,460
Miscellaneous	17,713	-	-	-	-	5,668	23,381
Capital outlay	375	6,899	-	-	647,032	2,000	656,306
Debt service							
Principal	51,687	-	-	405,000	-	-	456,687
Interest	11,313	-	-	92,584	-	-	103,897
Fees	-	-	-	3,755	-	-	3,755
Total expenditures	935,551	390,424	181,561	501,339	647,032	241,485	2,897,392
Excess (Deficiency) of Revenues Over (Under) Expenditures	(353,148)	(290,762)	93,400	242,631	(392,754)	(27,211)	(727,844)
Other Financing Sources (Uses)							
Bond proceeds	-	-	-	-	585,000	-	585,000
Transfers in	150,000	195,675	-	35,000	25,000	5,000	410,675
Transfers out	-	(5,000)	(40,000)	(46,000)	-	(25,675)	(116,675)
Total other financing sources (uses)	150,000	190,675	(40,000)	(11,000)	610,000	(20,675)	879,000
Net Change in Fund Balance	(203,148)	(100,087)	53,400	231,631	217,246	(47,886)	151,156
Fund Balance (Deficit), Beginning	(413,561)	(107,219)	487,827	1,891,797	1,422,072	145,810	3,426,726
Fund Balance (Deficit), Ending	\$ (616,709)	\$ (207,306)	\$ 541,227	\$ 2,123,428	\$ 1,639,318	\$ 97,924	\$ 3,577,882

City of Hillsboro, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – Modified Cash Basis Year Ended December 31, 2022

Net Change in Fund Balances - Total Governmental Funds	\$ 151,156
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Amounts reported for governmental activities in the
statement of activities are different because:

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds.
Neither transaction, however, has any effect on net position. In
the current period these amounts are:

Bonds issued	(585,000)
Bond principal retirement	385,000
Loan principal retirement	20,000
Direct borrowing principal retirement	<u>51,687</u>

Change in Net Position of Governmental Activities	<u>\$ 22,843</u>
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City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
General Fund
Year Ended December 31, 2022

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 266,000	\$ 322,464	\$ 56,464
Licenses, permits, and fees	24,540	60,445	35,905
Intergovernmental	128,500	150,947	22,447
Fines and forfeitures	2,500	1,984	(516)
Investment earnings	7,300	10,413	3,113
Miscellaneous	43,800	36,150	(7,650)
Total revenues	<u>472,640</u>	<u>582,403</u>	<u>109,763</u>
Expenditures			
Current			
General government	315,454	507,456	(192,002)
Public safety	270,100	212,273	57,827
Culture and recreation	122,000	134,734	(12,734)
Miscellaneous	35,000	17,713	17,287
Capital outlay	-	375	(375)
Debt service			
Principal	-	51,687	(51,687)
Interest and fees	-	11,313	(11,313)
Total expenditures	<u>742,554</u>	<u>935,551</u>	<u>(192,997)</u>
Deficiency of Revenues under Expenditures	<u>(269,914)</u>	<u>(353,148)</u>	<u>(83,234)</u>
Other Financing Sources			
Transfers in	<u>265,000</u>	<u>150,000</u>	<u>(115,000)</u>
Net Change in Fund Balance	<u>\$ (4,914)</u>	(203,148)	<u>\$ (198,234)</u>
Fund Deficit, Beginning		<u>(413,561)</u>	
Fund Deficit, Beginning		<u>\$ (616,709)</u>	

City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
Highway Fund
Year Ended December 31, 2022

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 3,950	\$ 4,298	\$ 348
Intergovernmental	100,000	91,982	(8,018)
Miscellaneous	100	3,382	3,282
Total revenues	<u>104,050</u>	<u>99,662</u>	<u>(4,388)</u>
Expenditures			
Current			
Public works	226,583	383,525	(156,942)
Capital outlay	<u>34,175</u>	<u>6,899</u>	<u>27,276</u>
Total expenditures	<u>260,758</u>	<u>390,424</u>	<u>(129,666)</u>
Deficiency of Revenues under Expenditures	<u>(156,708)</u>	<u>(290,762)</u>	<u>(134,054)</u>
Other Financing Sources (Uses)			
Transfers in	170,000	195,675	25,675
Transfers out	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>165,000</u>	<u>190,675</u>	<u>25,675</u>
Net Change in Fund Balance	<u>\$ 8,292</u>	(100,087)	<u>\$ (108,379)</u>
Fund Deficit, Beginning		<u>(107,219)</u>	
Fund Deficit, Beginning		<u>\$ (207,306)</u>	

City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
City Sales Tax Fund
Year Ended December 31, 2022

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
Sales tax	\$ 160,000	\$ 250,669	\$ 90,669
Investment earnings	600	403	(197)
Miscellaneous	<u>-</u>	<u>23,889</u>	<u>23,889</u>
Total revenues	<u>160,600</u>	<u>274,961</u>	<u>114,361</u>
Expenditures			
Current			
Economic development	<u>253,800</u>	<u>181,561</u>	<u>72,239</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(93,200)</u>	<u>93,400</u>	<u>186,600</u>
Other Financing Uses			
Transfers out	<u>-</u>	<u>(40,000)</u>	<u>(40,000)</u>
Net Change in Fund Balance	<u><u>\$ (93,200)</u></u>	53,400	<u><u>\$ 146,600</u></u>
Fund Balance, Beginning		<u>487,827</u>	
Fund Balance, Beginning		<u><u>\$ 541,227</u></u>	

City of Hillsboro, North Dakota
Proprietary Funds
Statement of Net Position – Modified Cash Basis
December 31, 2022

	Water	Electric	Sewer	Sanitation	Total
Assets					
Current Assets					
Cash and investments	\$ 126,045	\$ 405,224	\$ -	\$ -	\$ 531,269
Restricted cash	181,250	-	-	-	181,250
Due from other funds	-	711,443	-	-	711,443
Total assets	307,295	1,116,667	-	-	1,423,962
Liabilities					
Current liabilities					
Due to other funds	-	-	684,625	26,818	711,443
Current maturities of long-term debt	160,000	-	-	-	160,000
Total current liabilities	160,000	-	684,625	26,818	871,443
Long-term debt (net of current portion)					
Bonds payable	1,195,000	-	-	-	1,195,000
Total liabilities	1,355,000	-	684,625	26,818	2,066,443
Net Position					
Unrestricted	\$ (1,047,705)	\$ 1,116,667	\$ (684,625)	\$ (26,818)	\$ (642,481)

City of Hillsboro, North Dakota

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis

Year Ended December 31, 2022

	Water	Electric	Sewer	Sanitation	Total
Operating Revenues					
Utility sales and service charges	\$ 732,003	\$ 2,433,310	\$ 118,995	\$ 265,105	\$ 3,549,413
Operating Expenses					
Salaries and benefits	140,241	143,119	38,551	-	321,911
Professional services	-	18,318	26,461	-	44,779
Maintenance and supplies	476,583	283,338	190,467	6,301	956,689
Purchased power costs	-	1,940,142	-	-	1,940,142
Recycling costs	-	-	-	308,116	308,116
Contracted services	100,216	-	58,749	-	158,965
Miscellaneous	15,750	16,900	16,130	-	48,780
Machinery and equipment	32,859	6,899	6,899	5,465	52,122
Total operating expenses	765,649	2,408,716	337,257	319,882	3,831,504
Operating Income (Loss)	(33,646)	24,594	(218,262)	(54,777)	(282,091)
Nonoperating Revenues (Expenses)					
Investment earnings	627	120	30	-	777
Miscellaneous income	22,285	253,727	3,222	2,755	281,989
Interest on long-term debt	(25,225)	-	-	-	(25,225)
Fees on long-term debt	(7,835)	-	-	-	(7,835)
Total nonoperating revenues (expenses)	(10,148)	253,847	3,252	2,755	249,706
Income (Loss) before Transfers	(43,794)	278,441	(215,010)	(52,022)	(32,385)
Transfers in	46,000	-	-	-	46,000
Transfers out	(5,000)	(325,000)	(5,000)	(5,000)	(340,000)
Total transfers	41,000	(325,000)	(5,000)	(5,000)	(294,000)
Change in Net Position	(2,794)	(46,559)	(220,010)	(57,022)	(326,385)
Net (Deficit) Position, Beginning of Year	(1,044,911)	1,163,226	(464,615)	30,204	(316,096)
Net (Deficit) Position, End of Year	\$ (1,047,705)	\$ 1,116,667	\$ (684,625)	\$ (26,818)	\$ (642,481)

City of Hillsboro, North Dakota
Proprietary Funds
Statement of Cash Flows – Modified Cash Basis
Year Ended December 31, 2022

	Water	Electric	Sewer	Sanitation	Total
Operating Activities					
Receipts from customers and users	\$ 732,003	\$ 2,433,310	\$ 118,995	\$ 265,105	\$ 3,549,413
Payments to employees	(140,241)	(143,119)	(38,551)	-	(321,911)
Payments to vendors	(625,408)	(2,265,597)	(298,706)	(319,882)	(3,509,593)
Net cash from (used for) operating activities	(33,646)	24,594	(218,262)	(54,777)	(282,091)
Non-Capital Financing Activities					
Miscellaneous revenue	22,285	253,727	3,222	2,755	281,989
Net transfer (to) from other funds	41,000	(325,000)	(5,000)	(5,000)	(294,000)
Change in interfund balances	-	(246,828)	220,010	26,818	-
Net cash from (used for) non-capital financing activities	63,285	(318,101)	218,232	24,573	(12,011)
Capital and Related Financing Activities					
Payments on long-term debt					
Principal	(212,000)	-	-	-	(212,000)
Interest and fees	(33,060)	-	-	-	(33,060)
Net cash used for capital and related financing activities	(245,060)	-	-	-	(245,060)
Investing Activity					
Interest income	627	120	30	-	777
Change in Cash and Cash Equivalents	(214,794)	(293,387)	-	(30,204)	(538,385)
Cash and Cash Equivalents - Beginning of Year	522,089	698,611	-	30,204	1,250,904
Cash and Cash Equivalents - End of Year	\$ 307,295	\$ 405,224	\$ -	\$ -	\$ 712,519
Reconciliation of Operating Income (Loss) to Net Cash From (Used For) Operating Activities					
Operating income (loss)	\$ (33,646)	\$ 24,594	\$ (218,262)	\$ (54,777)	\$ (282,091)
Net cash from (used for) operating activities	\$ (33,646)	\$ 24,594	\$ (218,262)	\$ (54,777)	\$ (282,091)

City of Hillsboro, North Dakota
Statement of Net Position – Modified Cash Basis
December 31, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 3,426,726	\$ 1,069,654	\$ 4,496,380
Restricted cash	-	181,250	181,250
Total assets	<u>3,426,726</u>	<u>1,250,904</u>	<u>4,677,630</u>
Liabilities			
Long-term liabilities			
Due within one year	456,687	212,000	668,687
Due in more than one year	<u>4,226,810</u>	<u>1,355,000</u>	<u>5,581,810</u>
Total liabilities	<u>4,683,497</u>	<u>1,567,000</u>	<u>6,250,497</u>
Net Position			
Restricted for:			
Public works	67,261	-	67,261
Economic development	489,099	-	489,099
Capital improvements	1,422,072	-	1,422,072
Unrestricted	<u>(3,235,203)</u>	<u>(316,096)</u>	<u>(3,551,299)</u>
Total net position	<u><u>\$ (1,256,771)</u></u>	<u><u>\$ (316,096)</u></u>	<u><u>\$ (1,572,867)</u></u>

City of Hillsboro, North Dakota
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 435,938	\$ 29,279	\$ -	\$ -	\$ (406,659)	\$ -	\$ (406,659)
Public safety	185,242	-	-	-	(185,242)	-	(185,242)
Public works	2,809,694	17,025	-	-	(2,792,669)	-	(2,792,669)
Culture and recreation	163,832	-	-	-	(163,832)	-	(163,832)
Economic development	34,891	-	-	-	(34,891)	-	(34,891)
Miscellaneous	14,021	-	-	-	(14,021)	-	(14,021)
Interest and fees on long-term debt	37,112	-	-	-	(37,112)	-	(37,112)
Bond issuance costs	46,904	-	-	-	(46,904)	-	(46,904)
Total governmental activities	<u>3,727,634</u>	<u>46,304</u>	<u>-</u>	<u>-</u>	<u>(3,681,330)</u>	<u>-</u>	<u>(3,681,330)</u>
Business-type activities							
Water	597,211	713,709	-	-	-	116,498	116,498
Electric	2,258,364	2,306,894	-	-	-	48,530	48,530
Sewer	198,013	120,375	-	-	-	(77,638)	(77,638)
Sanitation	285,963	261,686	-	-	-	(24,277)	(24,277)
Total business-type activities	<u>3,339,551</u>	<u>3,402,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,113</u>	<u>63,113</u>
Total Government	<u>\$ 7,067,185</u>	<u>\$ 3,448,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,681,330)</u>	<u>63,113</u>	<u>(3,618,217)</u>
General revenues							
Property taxes					357,836	-	357,836
Special assessments					594,849	-	594,849
Sales tax					483,800	-	483,800
State aid					369,916	-	369,916
Investment earnings					13,629	1,300	14,929
Miscellaneous					48,608	230,012	278,620
Transfers					340,000	(340,000)	-
Total general revenue and transfers					<u>2,208,638</u>	<u>(108,688)</u>	<u>2,099,950</u>
Change in net position					(1,472,692)	(45,575)	(1,518,267)
Net position - beginning					215,921	(270,521)	(54,600)
Net position - ending					<u>\$ (1,256,771)</u>	<u>\$ (316,096)</u>	<u>\$ (1,572,867)</u>

City of Hillsboro, North Dakota

Governmental Funds

Balance Sheet – Modified Cash Basis

December 31, 2021

	<u>General</u>	<u>Highway Tax</u>	<u>City Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Cash and investments	\$ -	\$ -	\$ -	\$ 1,891,797	\$ 1,422,072	\$ 112,857	\$ 3,426,726
Due from other funds	-	-	487,827	-	-	32,953	520,780
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 487,827</u>	<u>\$ 1,891,797</u>	<u>\$ 1,422,072</u>	<u>\$ 145,810</u>	<u>\$ 3,947,506</u>
Liabilities and Fund Balances							
Liabilities							
Due to other funds	<u>\$ 413,561</u>	<u>\$ 107,219</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,780</u>
Fund Balances							
Restricted for							
Public safety	-	-	-	-	-	23,115	23,115
Public works	-	-	-	-	-	67,261	67,261
Culture and recreation	-	-	-	-	-	55,519	55,519
Economic development	-	-	487,827	-	-	1,272	489,099
Debt service	-	-	-	1,891,797	-	-	1,891,797
Capital improvements	-	-	-	-	1,422,072	-	1,422,072
Unassigned	<u>(413,561)</u>	<u>(107,219)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,357)</u>	<u>(522,137)</u>
Total fund balance (deficit)	<u>(413,561)</u>	<u>(107,219)</u>	<u>487,827</u>	<u>1,891,797</u>	<u>1,422,072</u>	<u>145,810</u>	<u>3,426,726</u>
Total liabilities and fund balances (deficits)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 487,827</u>	<u>\$ 1,891,797</u>	<u>\$ 1,422,072</u>	<u>\$ 145,810</u>	<u>\$ 3,947,506</u>

City of Hillsboro, North Dakota

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position – Modified Cash Basis

December 31, 2021

Total Fund Balances – Governmental Funds	\$ 3,426,726
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:	
Special assessment bonds	(4,105,000)
State revolving loans	(195,000)
Direct borrowings	(383,497)
	<hr/>
Total Net Position – Governmental Activities	<u>\$ (1,256,771)</u>

City of Hillsboro, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis

Year Ended December 31, 2021

	General	Highway Tax	City Sales Tax	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues							
General property taxes	\$ 305,467	\$ 3,848	\$ -	\$ -	\$ -	\$ 48,521	\$ 357,836
Sales tax	-	-	239,414	239,414	-	4,972	483,800
Special assessments	-	-	-	594,849	-	-	594,849
Licenses, permits, and fees	22,075	-	-	-	-	-	22,075
Intergovernmental	152,280	90,145	-	-	127,491	-	369,916
Charges for services	-	-	-	-	-	17,025	17,025
Fines and forfeitures	1,461	-	-	5,743	-	-	7,204
Interest income	7,327	-	535	416	-	5,351	13,629
Miscellaneous	32,770	6,647	-	-	-	9,191	48,608
Total revenues	521,380	100,640	239,949	840,422	127,491	85,060	1,914,942
Expenditures							
Current							
General government	435,938	-	-	-	-	-	435,938
Public safety	185,242	-	-	-	-	-	185,242
Public works	-	274,590	-	-	-	35,586	310,176
Culture and recreation	126,867	-	-	-	-	36,965	163,832
Economic development	-	-	33,963	-	-	928	34,891
Miscellaneous	10,699	-	-	-	-	3,322	14,021
Capital outlay	-	7,879	-	-	2,489,849	1,790	2,499,518
Debt service							
Principal	57,335	-	-	500,000	-	-	557,335
Interest	5,665	-	-	26,905	-	-	32,570
Fees	-	-	-	4,542	46,904	-	51,446
Total expenditures	821,746	282,469	33,963	531,447	2,536,753	78,591	4,284,969
Excess (Deficiency) of Revenues Over (Under) Expenditures	(300,366)	(181,829)	205,986	308,975	(2,409,262)	6,469	(2,370,027)
Other Financing Sources (Uses)							
Bond proceeds	-	-	-	186,241	3,193,759	-	3,380,000
Transfers in	153,228	170,000	-	53,000	25,000	10,000	411,228
Transfers out	(5,000)	(5,000)	(58,000)	-	-	(3,228)	(71,228)
Total other financing sources (uses)	148,228	165,000	(58,000)	239,241	3,218,759	6,772	3,720,000
Net Change in Fund Balance	(152,138)	(16,829)	147,986	548,216	809,497	13,241	1,349,973
Fund Balance, Beginning	(261,423)	(90,390)	339,841	1,343,581	612,575	132,569	2,076,753
Fund Balance, Ending	\$ (413,561)	\$ (107,219)	\$ 487,827	\$ 1,891,797	\$ 1,422,072	\$ 145,810	\$ 3,426,726

The Notes to Financial Statements are an integral part of this statement

City of Hillsboro, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities— Modified Cash Basis

Year Ended December 31, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 1,349,973
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Amounts reported for governmental activities in the
statement of activities are different because:

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds
Neither transaction, however, has any effect on net position. In
the current period these amounts are:

Bonds issued	(3,380,000)
Bond principal retirement	385,000
Loan principal retirement	115,000
Direct borrowing principal retirement	<u>57,335</u>

Change in Net Position of Governmental Activities	<u>\$ (1,472,692)</u>
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City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
General Fund
Year Ended December 31, 2021

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 260,000	\$ 305,467	\$ 45,467
Licenses, permits, and fees	28,440	22,075	(6,365)
Intergovernmental	126,198	152,280	26,082
Fines and forfeitures	1,500	1,461	(39)
Investment earnings	1,500	7,327	5,827
Miscellaneous	30,000	32,770	2,770
Total revenues	<u>447,638</u>	<u>521,380</u>	<u>73,742</u>
Expenditures			
Current			
General government	318,630	435,938	(117,308)
Public safety	205,975	185,242	20,733
Culture and recreation	110,000	126,867	(16,867)
Miscellaneous	30,000	10,699	19,301
Debt service			
Principal	-	57,335	(57,335)
Interest and fees	-	5,665	(5,665)
Total expenditures	<u>664,605</u>	<u>821,746</u>	<u>(157,141)</u>
Deficiency of Revenues under Expenditures	<u>(216,967)</u>	<u>(300,366)</u>	<u>(83,399)</u>
Other Financing Sources (Uses)			
Transfers in	153,228	153,228	-
Transfers out	(5,000)	(5,000)	-
Total other financing sources (uses)	<u>148,228</u>	<u>148,228</u>	<u>-</u>
Net Change in Fund Balance	<u><u>\$ (68,739)</u></u>	<u>(152,138)</u>	<u><u>\$ (83,399)</u></u>
Fund Deficit, Beginning		<u>(261,423)</u>	
Fund Deficit, Beginning		<u><u>\$ (413,561)</u></u>	

City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
Highway Fund
Year Ended December 31, 2021

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 3,800	\$ 3,848	\$ 48
Intergovernmental	100,000	90,145	(9,855)
Miscellaneous	100	6,647	6,547
Total revenues	<u>103,900</u>	<u>100,640</u>	<u>(3,260)</u>
Expenditures			
Current			
Public works	257,200	274,590	(17,390)
Capital outlay	14,175	7,879	6,296
Total expenditures	<u>271,375</u>	<u>282,469</u>	<u>(11,094)</u>
Deficiency of Revenues under Expenditures	<u>(167,475)</u>	<u>(181,829)</u>	<u>(14,354)</u>
Other Financing Sources (Uses)			
Transfers in	170,000	170,000	-
Transfers out	(5,000)	(5,000)	-
Total other financing sources (uses)	<u>165,000</u>	<u>165,000</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (2,475)</u>	(16,829)	<u>\$ (14,354)</u>
Fund Deficit, Beginning		<u>(90,390)</u>	
Fund Deficit, Beginning		<u>\$ (107,219)</u>	

City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
City Sales Tax Fund
Year Ended December 31, 2021

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
Sales tax	\$ 190,000	\$ 239,414	\$ 49,414
Investment earnings	1,500	535	(965)
Total revenues	<u>191,500</u>	<u>239,949</u>	<u>48,449</u>
Expenditures			
Current			
Economic development	<u>106,000</u>	<u>33,963</u>	<u>72,037</u>
Excess of Revenues over Expenditures	<u>85,500</u>	<u>205,986</u>	<u>120,486</u>
Other Financing Uses			
Transfers out	<u>-</u>	<u>(58,000)</u>	<u>(58,000)</u>
Net Change in Fund Balance	<u>\$ 85,500</u>	147,986	<u>\$ 62,486</u>
Fund Balance, Beginning		<u>339,841</u>	
Fund Balance, Beginning		<u>\$ 487,827</u>	

City of Hillsboro, North Dakota
Proprietary Funds
Statement of Net Position – Modified Cash Basis
December 31, 2021

	Water	Electric	Sewer	Sanitation	Total
Assets					
Current Assets					
Cash and investments	\$ 340,839	\$ 698,611	\$ -	\$ 30,204	\$ 1,069,654
Restricted cash	181,250	-	-	-	181,250
Due from other funds	-	464,615	-	-	464,615
Total assets	<u>522,089</u>	<u>1,163,226</u>	<u>-</u>	<u>30,204</u>	<u>1,715,519</u>
Liabilities					
Current liabilities					
Due to other funds	-	-	464,615	-	464,615
Current maturities of long-term debt	212,000	-	-	-	212,000
Total current liabilities	<u>212,000</u>	<u>-</u>	<u>464,615</u>	<u>-</u>	<u>676,615</u>
Long-term debt (net of current portion)					
Bonds payable	1,355,000	-	-	-	1,355,000
Total liabilities	<u>1,567,000</u>	<u>-</u>	<u>464,615</u>	<u>-</u>	<u>2,031,615</u>
Net Position					
Unrestricted	<u>\$ (1,044,911)</u>	<u>\$ 1,163,226</u>	<u>\$ (464,615)</u>	<u>\$ 30,204</u>	<u>\$ (316,096)</u>

City of Hillsboro, North Dakota

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis

Year Ended December 31, 2021

	Water	Electric	Sewer	Sanitation	Total
Operating Revenues					
Utility sales and service charges	\$ 713,709	\$ 2,306,894	\$ 120,375	\$ 261,686	\$ 3,402,664
Operating Expenses					
Salaries and benefits	127,518	138,337	41,078	-	306,933
Professional services	-	6,937	47,316	-	54,253
Maintenance and supplies	290,350	120,515	56,515	6,360	473,740
Purchased power costs	-	1,965,410	-	-	1,965,410
Recycling costs	-	-	-	262,804	262,804
Contracted services	48,873	-	26,176	-	75,049
Miscellaneous	15,750	17,864	18,587	-	52,201
Machinery and equipment	67,201	9,301	8,341	16,799	101,642
Total operating expenses	549,692	2,258,364	198,013	285,963	3,292,032
Operating Income (Loss)	164,017	48,530	(77,638)	(24,277)	110,632
Nonoperating Revenues (Expenses)					
Investment earnings	833	427	40	-	1,300
Miscellaneous income	21,288	204,243	1,205	3,276	230,012
Rent expense	(11,154)	-	-	-	(11,154)
Interest on long-term debt	(27,725)	-	-	-	(27,725)
Fees on long-term debt	(8,640)	-	-	-	(8,640)
Total nonoperating revenues (expenses)	(25,398)	204,670	1,245	3,276	183,793
Income (Loss) before Transfers	138,619	253,200	(76,393)	(21,001)	294,425
Transfers out	(5,000)	(325,000)	(5,000)	(5,000)	(340,000)
Change in Net Position	133,619	(71,800)	(81,393)	(26,001)	(45,575)
Net (Deficit) Position, Beginning of Year	(1,178,530)	1,235,026	(383,222)	56,205	(270,521)
Net (Deficit) Position, End of Year	\$ (1,044,911)	\$ 1,163,226	\$ (464,615)	\$ 30,204	\$ (316,096)

City of Hillsboro, North Dakota
Proprietary Funds
Statement of Cash Flow – Modified Cash Basis
Year Ended December 31, 2021

	Water	Electric	Sewer	Sanitation	Total
Operating Activities					
Receipts from customers and users	\$ 713,709	\$ 2,306,894	\$ 120,375	\$ 261,686	\$ 3,402,664
Payments to employees	(127,518)	(138,337)	(41,078)	-	(306,933)
Payments to vendors	(422,174)	(2,120,027)	(156,935)	(285,963)	(2,985,099)
Net cash from (used for) operating activities	164,017	48,530	(77,638)	(24,277)	110,632
Non-Capital Financing Activities					
Miscellaneous revenue	21,288	204,243	1,205	3,276	230,012
Rent payment	(11,154)	-	-	-	(11,154)
Net transfer (to) from other funds	(5,000)	(325,000)	(5,000)	(5,000)	(340,000)
Change in interfund balances	-	(81,393)	81,393	-	-
Net cash from (used for) non-capital financing activities	5,134	(202,150)	77,598	(1,724)	(121,142)
Capital and Related Financing Activities					
Payments on long-term debt					
Principal	(161,000)	-	-	-	(161,000)
Interest and fees	(36,365)	-	-	-	(36,365)
Net cash used for capital and related financing activities	(197,365)	-	-	-	(197,365)
Investing Activity					
Interest income	833	427	40	-	1,300
Change in Cash and Cash Equivalents	(27,381)	(153,193)	-	(26,001)	(206,575)
Cash and Cash Equivalents - Beginning of Year	549,470	851,804	-	56,205	1,457,479
Cash and Cash Equivalents - End of Year	\$ 522,089	\$ 698,611	\$ -	\$ 30,204	\$ 1,250,904
Reconciliation of Operating Income (Loss) to Net Cash From (Used For) Operating Activities					
Operating income (loss)	\$ 164,017	\$ 48,530	\$ (77,638)	\$ (24,277)	\$ 110,632
Net cash from (used for) operating activities	\$ 164,017	\$ 48,530	\$ (77,638)	\$ (24,277)	\$ 110,632

City of Hillsboro, North Dakota
Statement of Net Position – Modified Cash Basis
December 31, 2020

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 2,076,753	\$ 1,276,229	\$ 3,352,982
Restricted cash	-	181,250	181,250
Total assets	<u>2,076,753</u>	<u>1,457,479</u>	<u>3,534,232</u>
Liabilities			
Long-term liabilities			
Due within one year	557,335	161,000	718,335
Due in more than one year	<u>1,303,497</u>	<u>1,567,000</u>	<u>2,870,497</u>
Total liabilities	<u>1,860,832</u>	<u>1,728,000</u>	<u>3,588,832</u>
Net position			
Restricted	1,956,156	-	1,956,156
Unrestricted	<u>(1,740,235)</u>	<u>(270,521)</u>	<u>(2,010,756)</u>
Total net position	<u>\$ 215,921</u>	<u>\$ (270,521)</u>	<u>\$ (54,600)</u>

City of Hillsboro, North Dakota
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 404,802	\$ 37,262	\$ -	\$ -	\$ (367,540)	\$ -	\$ (367,540)
Public safety	141,673	-	-	-	(141,673)	-	(141,673)
Public works	484,868	17,000	-	-	(467,868)	-	(467,868)
Culture and recreation	138,886	-	-	-	(138,886)	-	(138,886)
Economic development	36,558	-	-	-	(36,558)	-	(36,558)
Miscellaneous	221,490	-	-	-	(221,490)	-	(221,490)
Interest and fees on long-term debt	47,262	-	-	-	(47,262)	-	(47,262)
Total governmental activities	<u>1,475,539</u>	<u>54,262</u>	<u>-</u>	<u>-</u>	<u>(1,421,277)</u>	<u>-</u>	<u>(1,421,277)</u>
Business-type activities							
Water	811,029	710,837	-	-	-	(100,192)	(100,192)
Electric	2,250,359	2,434,080	-	-	-	183,721	183,721
Sewer	722,077	110,914	-	-	-	(611,163)	(611,163)
Sanitation	280,745	273,147	-	-	-	(7,598)	(7,598)
Total business-type activities	<u>4,064,210</u>	<u>3,528,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(535,232)</u>	<u>(535,232)</u>
Total Government	<u>\$ 5,539,749</u>	<u>\$ 3,583,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,421,277)</u>	<u>(535,232)</u>	<u>(1,956,509)</u>
General revenues							
Property taxes					304,678	-	304,678
Special assessments					613,562	-	613,562
Sales tax					417,774	-	417,774
State aid					340,307	-	340,307
Investment earnings					22,839	6,166	29,005
Miscellaneous					77,537	279,123	356,660
Transfers and capital contributions					<u>111,608</u>	<u>(111,608)</u>	<u>-</u>
Total general revenue and transfers					<u>1,888,305</u>	<u>173,681</u>	<u>2,061,986</u>
Change in net position					467,028	(361,551)	105,477
Net position - beginning					<u>(251,107)</u>	<u>91,030</u>	<u>(160,077)</u>
Net position - ending					<u>\$ 215,921</u>	<u>\$ (270,521)</u>	<u>\$ (54,600)</u>

City of Hillsboro, North Dakota

Governmental Funds

Balance Sheet – Modified Cash Basis

December 31, 2020

	<u>General</u>	<u>Highway Tax</u>	<u>City Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Cash and investments	\$ -	\$ -	\$ -	\$ 1,343,581	\$ 612,575	\$ 120,597	\$ 2,076,753
Due from other funds	-	-	339,841	-	-	11,972	351,813
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,841</u>	<u>\$ 1,343,581</u>	<u>\$ 612,575</u>	<u>\$ 132,569</u>	<u>\$ 2,428,566</u>
Liabilities and Fund Balances							
Liabilities							
Due to other funds	\$ 261,423	\$ 90,390	\$ -	\$ -	\$ -	\$ -	\$ 351,813
Fund Balance							
Restricted for							
Public safety	-	-	-	-	-	14,181	14,181
Public works	-	-	-	-	-	66,564	66,564
Culture and recreation	-	-	-	-	-	55,874	55,874
Economic development	-	-	339,841	-	-	3,910	343,751
Debt service	-	-	-	1,343,581	-	-	1,343,581
Capital improvements	-	-	-	-	612,575	-	612,575
Unassigned	(261,423)	(90,390)	-	-	-	(7,960)	(359,773)
Total fund balance (deficit)	<u>(261,423)</u>	<u>(90,390)</u>	<u>339,841</u>	<u>1,343,581</u>	<u>612,575</u>	<u>132,569</u>	<u>2,076,753</u>
Total liabilities and fund balances (deficits)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,841</u>	<u>\$ 1,343,581</u>	<u>\$ 612,575</u>	<u>\$ 132,569</u>	<u>\$ 2,428,566</u>

City of Hillsboro, North Dakota

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position – Modified Cash Basis

December 31, 2020

Total Fund Balances – Governmental Funds	\$ 2,076,753
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:	
Refunding improvement bonds	(1,110,000)
State revolving loans	(310,000)
Direct borrowings	(440,832)
	<hr/>
Total Net Position – Governmental Activities	<u><u>\$ 215,921</u></u>

City of Hillsboro, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis

Year Ended December 31, 2020

	General	Highway Tax	City Sales Tax	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues							
General property taxes	\$ 268,189	\$ 3,912	\$ -	\$ -	\$ -	\$ 32,577	\$ 304,678
Sales tax	-	-	207,520	207,520	-	2,734	417,774
Special assessments	-	-	-	613,562	-	-	613,562
Licenses, permits, and fees	26,813	-	-	-	-	-	26,813
Intergovernmental	127,928	87,379	-	-	125,000	-	340,307
Charges for services	-	-	-	-	-	17,000	17,000
Fines and forfeitures	3,195	-	-	7,254	-	-	10,449
Interest income	15,039	-	966	751	-	6,083	22,839
Miscellaneous	35,292	98	8,000	-	26,747	7,400	77,537
Total revenues	476,456	91,389	216,486	829,087	151,747	65,794	1,830,959
Expenditures							
Current							
General government	404,802	-	-	-	-	-	404,802
Public safety	141,298	-	-	-	-	375	141,673
Public works	-	246,650	-	-	-	55,038	301,688
Culture and recreation	110,612	-	-	-	-	28,274	138,886
Economic development	-	-	36,558	-	-	-	36,558
Miscellaneous	213,841	-	-	-	-	7,649	221,490
Capital outlay	-	140,056	-	-	41,352	1,772	183,180
Debt service							
Principal	-	-	-	813,000	-	-	813,000
Interest	-	-	-	41,163	-	-	41,163
Fees	-	-	-	6,099	-	-	6,099
Total expenditures	870,553	386,706	36,558	860,262	41,352	93,108	2,288,539
Excess (Deficiency) of Revenues Over (Under) Expenditures	(394,097)	(295,317)	179,928	(31,175)	110,395	(27,314)	(457,580)
Other Financing Sources (Uses)							
Bond proceeds	-	-	-	-	440,832	-	440,832
Transfers in	150,000	207,300	-	35,000	175,000	44,000	611,300
Transfers out	(9,000)	(5,000)	(45,000)	-	(440,692)	-	(499,692)
Total other financing sources (uses)	141,000	202,300	(45,000)	35,000	175,140	44,000	552,440
Net Change in Fund Balance	(253,097)	(93,017)	134,928	3,825	285,535	16,686	94,860
Fund Balance, Beginning	(8,326)	2,627	204,913	1,339,756	327,040	115,883	1,981,893
Fund Balance, Ending	\$ (261,423)	\$ (90,390)	\$ 339,841	\$ 1,343,581	\$ 612,575	\$ 132,569	\$ 2,076,753

The Notes to Financial Statements are an integral part of this statement

City of Hillsboro, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities – Modified Cash Basis
Year Ended December 31, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 94,860
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Amounts reported for governmental activities in the
statement of activities are different because:

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds
Neither transaction, however, has any effect on net position. In
the current period these amounts are:

Direct borrowings issued	(440,832)
Bond principal retirement	700,000
Loan principal retirement	<u>113,000</u>

Change in Net Position of Governmental Activities	<u><u>\$ 467,028</u></u>
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City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
General Fund
Year Ended December 31, 2020

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 251,240	\$ 268,189	\$ 16,949
Licenses, permits, and fees	27,565	26,813	(752)
Intergovernmental	124,500	127,928	3,428
Fines and forfeitures	4,000	3,195	(805)
Investment earnings	1,500	15,039	13,539
Miscellaneous	35,000	35,292	292
Total revenues	<u>443,805</u>	<u>476,456</u>	<u>32,651</u>
Expenditures			
Current			
General government	281,050	404,802	(123,752)
Public safety	197,000	141,298	55,702
Culture and recreation	105,000	110,612	(5,612)
Miscellaneous	15,000	213,841	(198,841)
Total expenditures	<u>598,050</u>	<u>870,553</u>	<u>(272,503)</u>
Deficiency of Revenues under Expenditures	<u>(154,245)</u>	<u>(394,097)</u>	<u>(239,852)</u>
Other Financing Sources (Uses)			
Transfers in	150,000	150,000	-
Transfers out	(9,000)	(9,000)	-
Total other financing sources (uses)	<u>141,000</u>	<u>141,000</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (13,245)</u>	(253,097)	<u>\$ (239,852)</u>
Fund Deficit, Beginning		<u>(8,326)</u>	
Fund Deficit, Beginning		<u>\$ (261,423)</u>	

City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
Highway Fund
Year Ended December 31, 2020

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 5,000	\$ 3,912	\$ (1,088)
Intergovernmental	105,000	87,379	(17,621)
Miscellaneous	500	98	(402)
Total revenues	<u>110,500</u>	<u>91,389</u>	<u>(19,111)</u>
Expenditures			
Current			
Public works	192,500	246,650	(54,150)
Capital outlay	<u>-</u>	<u>140,056</u>	<u>(140,056)</u>
Total expenditures	<u>192,500</u>	<u>386,706</u>	<u>(194,206)</u>
Deficiency of Revenues under Expenditures	<u>(82,000)</u>	<u>(295,317)</u>	<u>(213,317)</u>
Other Financing Sources (Uses)			
Transfers in	90,000	207,300	117,300
Transfers out	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>85,000</u>	<u>202,300</u>	<u>117,300</u>
Net Change in Fund Balance	<u><u>\$ 3,000</u></u>	(93,017)	<u><u>\$ (96,017)</u></u>
Fund Balance, Beginning		<u>2,627</u>	
Fund Deficit, Beginning		<u><u>\$ (90,390)</u></u>	

City of Hillsboro, North Dakota
Statement of Revenues, Expenditures, and Changes in Fund
Balance – Budget to Actual – Modified Cash Basis
City Sales Tax Fund
Year Ended December 31, 2020

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
Sales tax	\$ 190,000	\$ 207,520	\$ 17,520
Investment earnings	2,106	966	(1,140)
Miscellaneous	<u>-</u>	<u>8,000</u>	<u>8,000</u>
Total revenues	<u>192,106</u>	<u>216,486</u>	<u>24,380</u>
Expenditures			
Current			
Economic development	<u>187,000</u>	<u>36,558</u>	<u>150,442</u>
Excess of Revenues over Expenditures	<u>5,106</u>	<u>179,928</u>	<u>174,822</u>
Other Financing Uses			
Transfers out	<u>-</u>	<u>(45,000)</u>	<u>(45,000)</u>
Net Change in Fund Balance	<u><u>\$ 5,106</u></u>	<u>134,928</u>	<u><u>\$ 129,822</u></u>
Fund Balance, Beginning		<u>204,913</u>	
Fund Balance, Beginning		<u><u>\$ 339,841</u></u>	

City of Hillsboro, North Dakota
Proprietary Funds
Statement of Net Position – Modified Cash Basis
December 31, 2020

	Water	Electric	Sewer	Sanitation	Total
Assets					
Current Assets					
Cash and investments	\$ 368,220	\$ 851,804	\$ -	\$ 56,205	\$ 1,276,229
Restricted cash	181,250	-	-	-	181,250
Due from other funds	-	383,222	-	-	383,222
Total assets	549,470	1,235,026	-	56,205	1,840,701
Liabilities					
Current liabilities					
Due to other funds	-	-	383,222	-	383,222
Current maturities of long-term debt	161,000	-	-	-	161,000
Total current liabilities	161,000	-	383,222	-	544,222
Long-term debt (net of current portion)					
Bonds payable	1,567,000	-	-	-	1,567,000
Total liabilities	1,728,000	-	383,222	-	2,111,222
Net Position					
Unrestricted	\$ (1,178,530)	\$ 1,235,026	\$ (383,222)	\$ 56,205	\$ (270,521)

City of Hillsboro, North Dakota

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis
Year Ended December 31, 2020

	Water	Electric	Sewer	Sanitation	Total
Operating Revenues					
Utility sales and service charges	\$ 710,837	\$ 2,434,080	\$ 110,914	\$ 273,147	\$ 3,528,978
Operating Expenses					
Salaries and benefits	134,748	143,561	45,105	-	323,414
Professional services	-	6,062	14,708	-	20,770
Maintenance and supplies	270,709	70,686	49,050	3,363	393,808
Purchased power costs	-	1,874,549	-	-	1,874,549
Recycling costs	-	-	-	276,048	276,048
Contracted services	151,441	-	475,502	-	626,943
Miscellaneous	1,051	5,276	6,669	338	13,334
Machinery and equipment	201,367	150,225	131,043	996	483,631
Total operating expenses	759,316	2,250,359	722,077	280,745	4,012,497
Operating Income (Loss)	(48,479)	183,721	(611,163)	(7,598)	(483,519)
Nonoperating Revenues (Expenses)					
Investment earnings	1,502	4,592	72	-	6,166
Miscellaneous income	22,202	251,684	4,000	1,237	279,123
Rent expense	(12,168)	-	-	-	(12,168)
Interest on long-term debt	(30,125)	-	-	-	(30,125)
Fees on long-term debt	(9,420)	-	-	-	(9,420)
Total nonoperating revenues (expenses)	(28,009)	256,276	4,072	1,237	233,576
Income (Loss) before Transfers	(76,488)	439,997	(607,091)	(6,361)	(249,943)
Transfers in	117,300	88,792	117,300	-	323,392
Transfers out	(30,000)	(395,000)	(5,000)	(5,000)	(435,000)
Total transfers	87,300	(306,208)	112,300	(5,000)	(111,608)
Change in Net Position	10,812	133,789	(494,791)	(11,361)	(361,551)
Net (Deficit) Position, Beginning of Year	(1,189,342)	1,101,237	111,569	67,566	91,030
Net (Deficit) Position, End of Year	\$ (1,178,530)	\$ 1,235,026	\$ (383,222)	\$ 56,205	\$ (270,521)

City of Hillsboro, North Dakota
Proprietary Funds
Statement of Cash Flows – Modified Cash Basis
Year Ended December 31, 2020

	Water	Electric	Sewer	Sanitation	Total
Operating Activities					
Receipts from customers and users	\$ 710,837	\$ 2,434,080	\$ 110,914	\$ 273,147	\$ 3,528,978
Payments to employees	(134,748)	(143,561)	(45,105)	-	(323,414)
Payments to vendors	(624,568)	(2,106,798)	(676,972)	(280,745)	(3,689,083)
Net cash from (used for) operating activities	(48,479)	183,721	(611,163)	(7,598)	(483,519)
Non-Capital Financing Activities					
Miscellaneous revenue	22,202	251,684	4,000	1,237	279,123
Rent payment	(12,168)	-	-	-	(12,168)
Net transfer (to) from other funds	87,300	(306,208)	112,300	(5,000)	(111,608)
Change in interfund balances	-	(383,222)	383,222	-	-
Net cash from (used for) non-capital financing activities	97,334	(437,746)	499,522	(3,763)	155,347
Capital and Related Financing Activities					
Payments on long-term debt					
Principal	(156,000)	-	-	-	(156,000)
Interest and fees	(39,545)	-	-	-	(39,545)
Net cash used for capital and related financing activities	(195,545)	-	-	-	(195,545)
Investing Activity					
Interest income	1,502	4,592	72	-	6,166
Change in Cash and Cash Equivalents	(145,188)	(249,433)	(111,569)	(11,361)	(517,551)
Cash and Cash Equivalents - Beginning of Year	694,658	1,101,237	111,569	67,566	1,975,030
Cash and Cash Equivalents - End of Year	\$ 549,470	\$ 851,804	\$ -	\$ 56,205	\$ 1,457,479
Reconciliation of Operating Income (Loss) to Net Cash From (Used For) Operating Activities					
Operating income (loss)	\$ (48,479)	\$ 183,721	\$ (611,163)	\$ (7,598)	\$ (483,519)
Net cash from (used for) operating activities	\$ (48,479)	\$ 183,721	\$ (611,163)	\$ (7,598)	\$ (483,519)

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The City is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

The accompanying financial statements present the activities of the City. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City such that exclusion would cause the City's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. able to impose its will on that organization or
2. there is potential for the organization to provide specific financial benefits to or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

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

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The statement of net position and the statement of activities display information about the City. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The City reports the following major governmental funds:

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

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

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

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

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

The City reports the following major proprietary funds:

Water – This fund is used to account for customer receipts and payments for water fees and construction costs of various water projects, as well as the payment of long-term debt principal, interest, and related costs for water purposes.

Electric – This fund is used to account for customer receipts and payments for electric fees.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

Cash and Investments

Cash consist of amounts in demand deposits, money market accounts, and certificates of deposit with a maturity date of 90 days or less.

Investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

Restricted Cash

Restricted cash consist of funds restricted in accordance with bond indenture agreements.

Long-Term Liabilities

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

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

Fund Balance

It is the policy of the City to spend restricted resources first, followed by unrestricted resources.

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

Unassigned Fund Balance – represents the remaining residual balances that have not been restricted, committed, or assigned to specific purposes within the General Fund and negative fund balances.

The City has not adopted a fund balance policy; therefore there are no committed or assigned fund balances.

Net Position

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

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

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

Interfund Transactions

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

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

Interfund receivables/payables arise as a result of negative cash balances within individual funds. There is no formal repayment plan between the funds.

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

Expenditures in Excess of Budget

During the year ended December 31, 2022, the City had the following fund expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Governmental Funds			
General	\$ 742,554	\$ 935,551	\$ 192,997
Highway Tax	260,758	390,424	129,666

During the year ended December 31, 2021, the City had the following fund expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Governmental Funds			
General	\$ 664,605	\$ 821,746	\$ 157,141
Highway Tax	271,375	282,469	11,094

During the year ended December 31, 2020, the City had the following fund expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Governmental Funds			
General	\$ 598,050	\$ 870,553	\$ 272,503
Highway Tax	192,500	386,706	194,206

Excess expenditures in the general fund and highway tax fund were covered by interfund borrowing. Excess expenditures in the capital projects fund were covered by debt issuances. Excess expenditures in the nonmajor governmental funds were covered by revenues in excess of budget, transfers from other funds, and existing fund balances.

Deficit Net Position/Fund Balance

At December 31, 2022, the City had a deficit fund balance/net position in the following funds:

Governmental Funds	
General	\$ 616,709
Highway Tax	207,306
Nonmajor Governmental	
HEDC	21,324
Proprietary Funds	
Water	1,047,705
Sewer	684,625
Sanitation	26,818

At December 31, 2022, the City had a deficit fund balance/net position in the following funds:

Governmental Funds	
General	\$ 413,561
Highway Tax	107,219
Nonmajor Governmental	
Recreation District	1,357
Proprietary Funds	
Water	1,044,911
Sewer	464,615

At December 31, 2020, the City had a deficit fund balance/net position in the following funds:

Governmental Funds	
General	\$ 261,423
Highway Tax	90,390
Nonmajor Governmental	
Recreation District	7,960
Proprietary Funds	
Water	1,178,530
Sewer	383,222

Deficit fund balances in the governmental funds are expected to be alleviated by future revenues and, if necessary, transfers from other funds. The deficit net position of the water fund will be alleviated as the outstanding debt of the fund is reduced. The deficit net positions of the other proprietary funds are expected to be alleviated by future revenues.

Note 3 - Deposits and Investments

Deposits

Custodial Credit Risk – Risk that in the event of bank failure, the City’s deposits may not be returned to it. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk.

In accordance with the North Dakota Century Code, the City maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to or greater than 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 December 31, 2022, the City’s carrying amount of deposits totaled \$4,290,401, and the bank balances totaled \$4,220,012. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2021, the City’s carrying amount of deposits totaled \$4,677,630, and the bank balances totaled \$4,550,231. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2020, the City’s carrying amount of deposits totaled \$3,534,232, and the bank balances totaled \$3,406,095. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Investments

Interest Rate Risk – The City does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates. Investments are reported at cost. The City's investments consist of certificates of deposit.

Credit Risk – The City may invest idle funds as authorized in North Dakota Statutes, as follows:

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

Concentration of Credit Risk – The City does not have a limit on the amount they may invest in any one issuer.

In accordance with the modified cash basis of accounting, investments in securities are recorded at cost. The fair value levels are considered Level 1, which consist of inputs to the valuation methodology that are unadjusted quoted prices for identical assets in active markets that the City has the ability to access.

Investments at December 31, 2022 were as follows:

	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Total</u>
Certificates of Deposit	<u>\$ -</u>	<u>\$ 152,723</u>	<u>\$ 152,723</u>

Investments at December 31, 2021 were as follows:

	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Total</u>
Certificates of Deposit	<u>\$ -</u>	<u>\$ 152,723</u>	<u>\$ 152,723</u>

Investments at December 31, 2020 were as follows:

	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 152,723</u>	<u>\$ -</u>	<u>\$ 152,723</u>

Note 4 - Property Taxes and Special Assessments**Property Taxes**

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

Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county and remitted to the City at the same time property tax settlements are made. Property owners are allowed to prepay total future installments plus accrued interest without prepayment penalties. Special assessments are generally collected by the county and remitted to the City at the same time the tax settlements are made.

Note 5 - Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Special assessment bonds	\$ 4,105,000	\$ -	\$ 385,000	\$ 3,720,000	\$ 50,000
Temporary revenue bonds	-	585,000	-	585,000	585,000
State revolving fund loans	195,000	-	20,000	175,000	20,000
Direct borrowings	383,497	-	51,687	331,810	53,212
Governmental activity long-term debt	<u>\$ 4,683,497</u>	<u>\$ 585,000</u>	<u>\$ 456,687</u>	<u>\$ 4,811,810</u>	<u>\$ 708,212</u>
Business-Type Activities					
Revenue bonds	<u>\$ 1,567,000</u>	<u>\$ -</u>	<u>\$ 212,000</u>	<u>\$ 1,355,000</u>	<u>\$ 160,000</u>

During the year ended December 31, 2022, the City issued \$585,000 of loan anticipation temporary revenue bonds to provide interim financing for a water and sewer infrastructure project. The bonds bear an interest rate of 3.10%. The bonds are issued in anticipation of and are secured by loan proceeds to be received from a USDA Rural Development loan. Principal and interest on these bonds are due in one lump sum in October 2023.

City of Hillsboro, North Dakota

Notes to Financial Statements

December 31, 2022, 2021, and 2020

Outstanding bonded debt and loans as of December 31, 2022, is as follows:

	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
<u>Governmental Activities</u>				
Special Assessment Bonds				
Refunding Improvement Bonds of 2012	1.00 - 2.75%	2028	\$ 735,000	\$ 340,000
Refunding Improvement Bonds of 2021	0.95 - 2.25	2049	3,380,000	3,380,000
Total special assessment bonds				<u>3,720,000</u>
Temporary Revenue Bonds				
Loan Anticipation Temporary Revenue Bond of 2022	3.10%	2023	585,000	585,000
State Revolving Fund Loans				
Wastewater Treatment Assessment Warrant, Series 2008	2.50%	2029	112,849	60,000
Water Treatment Assessment Warrant, Series 2008	2.50%	2029	289,376	115,000
Total state revolving fund loans				<u>175,000</u>
Direct Borrowings				
Promissory Note 2020	2.95%	2026	440,832	331,810
Total				<u>\$ 4,811,810</u>
<u>Business-Type Activities</u>				
Revenue Bonds				
Water Treatment Revenue Bond, Series 2009	0.50%	2029	\$ 957,000	\$ 375,000
Water Treatment Revenue Bond, Series 2012	2.00%	2031	2,623,344	980,000
Total revenue bonds				<u>\$ 1,355,000</u>

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Special assessment bonds	\$ 1,110,000	\$ 3,380,000	\$ 385,000	\$ 4,105,000	\$ 385,000
State revolving fund loans	310,000	-	115,000	195,000	20,000
Direct borrowings	440,832	-	57,335	383,497	51,687
Governmental activity long-term debt	<u>\$ 1,860,832</u>	<u>\$ 3,380,000</u>	<u>\$ 557,335</u>	<u>\$ 4,683,497</u>	<u>\$ 456,687</u>
<u>Business-Type Activities</u>					
Revenue bonds	<u>\$ 1,728,000</u>	<u>\$ -</u>	<u>\$ 161,000</u>	<u>\$ 1,567,000</u>	<u>\$ 212,000</u>

During the year ended December 31, 2021, the City issued \$3,380,000 of refunding improvement bonds to finance infrastructure improvements for a new housing district. The bonds bear an interest rate of 0.95-2.25% and call for semiannual interest payments commencing May 1, 2022, and annual principal payments commencing May 1, 2025.

City of Hillsboro, North Dakota

Notes to Financial Statements

December 31, 2022, 2021, and 2020

Outstanding long-term debt as of December 31, 2021, is as follows:

	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
<u>Governmental Activities</u>				
Special Assessment Bonds				
Refunding Improvement Bonds of 2012	1.00 - 2.75	2028	\$ 735,000	\$ 390,000
Refunding Improvement Bonds of 2013	0.65 - 2.10	2022	3,075,000	335,000
Refunding Improvement Bonds of 2021	0.95 - 2.25	2049	3,380,000	3,380,000
Total special assessment bonds				4,105,000
State Revolving Fund Loans				
Wastewater Treatment Assessment Warrant, Series 2008	2.50	2029	112,849	65,000
Water Treatment Assessment Warrant, Series 2008	2.50	2029	289,376	130,000
Total state revolving fund loans				195,000
Direct Borrowings				
Promissory Note 2020	2.95	2026	440,832	383,497
Total				\$ 4,683,497
<u>Business-Type Activities</u>				
Revenue Bonds				
Water Treatment Revenue Bond, Series 2009	0.50	2029	\$ 957,000	\$ 425,000
Water Treatment Revenue Bond, Series 2010	2.50	2029	110,679	52,000
Water Treatment Revenue Bond, Series 2012	2.00	2031	2,623,344	1,090,000
Total revenue bonds				\$ 1,567,000

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Special assessment bonds	\$ 1,810,000	\$ -	\$ 700,000	\$ 1,110,000	\$ 385,000
State revolving fund loans	423,000	-	113,000	310,000	115,000
Direct borrowings	-	440,832	-	440,832	57,335
Governmental activity long-term debt	\$ 2,233,000	\$ 440,832	\$ 813,000	\$ 1,860,832	\$ 557,335
<u>Business-Type Activities</u>					
Revenue bonds	\$ 1,884,000	\$ -	\$ 156,000	\$ 1,728,000	\$ 161,000

During the year ended December 31, 2020, the City entered into a promissory note agreement to finance the purchase of a payloader and construction of a building. All equipment of the City serves as collateral for this note. The promissory note bears an interest rate of 2.95% and calls for five annual payments of \$63,000 commencing January 2021 followed by a balloon of the remaining outstanding principal and interest in January 2026.

City of Hillsboro, North Dakota

Notes to Financial Statements

December 31, 2022, 2021, and 2020

Outstanding long-term debt as of December 31, 2020, is as follows:

	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
<u>Governmental Activities</u>				
Special Assessment Bonds				
Refunding Improvement Bonds of 2012	1.00 - 2.75	2028	\$ 735,000	\$ 440,000
Refunding Improvement Bonds of 2013	0.65 - 2.10	2022	3,075,000	670,000
Total special assessment bonds				1,110,000
State Revolving Fund Loans				
Wastewater Treatment Assessment Warrant, Series 2006	2.50	2029	1,151,563	95,000
Wastewater Treatment Assessment Warrant, Series 2008	2.50	2029	112,849	70,000
Water Treatment Assessment Warrant, Series 2008	2.50	2029	289,376	145,000
Total state revolving fund loans				310,000
Direct Borrowings				
Promissory Note 2020	2.95	2026	440,832	440,832
Total				<u>\$ 1,860,832</u>
<u>Business-Type Activities</u>				
Revenue Bonds				
Water Treatment Revenue Bond, Series 2009	0.50	2029	\$ 957,000	\$ 475,000
Water Treatment Revenue Bond, Series 2010	2.50	2029	110,679	58,000
Water Treatment Revenue Bond, Series 2012	2.00	2031	2,378,344	1,195,000
Total revenue bonds				<u>\$ 1,728,000</u>

The annual requirements to amortize all bonded debt and loans debt outstanding as of December 31, 2022, are as follows:

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 708,212	\$ 114,411	\$ 160,000	\$ 21,475
2024	129,781	93,104	165,000	19,025
2025	246,379	89,342	175,000	16,475
2026	362,438	84,714	175,000	13,800
2027	200,000	76,540	180,000	11,125
2028-2032	690,000	340,309	500,000	16,625
2033-2037	625,000	284,496	-	-
2038-2042	700,000	210,720	-	-
2043-2047	795,000	113,625	-	-
2048-2049	355,000	10,725	-	-
Total	<u>\$ 4,811,810</u>	<u>\$ 1,417,986</u>	<u>\$ 1,355,000</u>	<u>\$ 98,525</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in substantial compliance with significant limitations and restrictions as of December 31, 2022.

Special assessment bonds are recorded as a liability in the governmental activities in the government-wide statement and are payable from the debt service funds primarily through special assessments levied and collected for local improvements. All special assessment bonds are refunding bonds. North Dakota state law requires that these be called refunding bonds because warrants are the first issuance that are refunded with the bond issuance. The City has a commitment relating to a pledge of full faith and credit on the special assessment bonds. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds.

The temporary revenue bonds are recorded as a liability in the governmental activities in the government-wide statement and will be paid from the debt service fund upon the issuance of a USDA Rural Development loan, which serves as security for this bond issuance.

State revolving fund loans are recorded as a liability in the governmental activities in the government-wide statement and are paid from the debt service funds.

Direct borrowings are recorded as a liability in the governmental activities in the government-wide statement and are paid from the general fund.

Water treatment revenue bonds are recorded as a liability in the water fund and are payable from revenues of the water utility.

Note 6 - Interfund Receivables, Payables and Transfers

Interfund receivables/payables arise as a result of negative cash balances within individual funds.

The following interfund receivables/payables existed at December 31, 2022:

	Due From Other Funds	Due To Other Funds
General	\$ -	\$ 616,709
Highway Tax	-	207,306
City Sales Tax	541,227	-
Capital Projects	184,864	-
Nonmajor Governmental	97,924	-
Electric	711,443	-
Sewer	-	684,625
Sanitation	-	26,818
	<u>\$ 1,535,458</u>	<u>\$ 1,535,458</u>

The following interfund receivables/payables existed at December 31, 2021:

	Due From Other Funds	Due To Other Funds
General	\$ -	\$ 413,561
Highway Tax	-	107,219
City Sales Tax	487,827	-
Nonmajor Governmental	32,953	-
Electric	464,615	-
Sewer	-	464,615
	<u>\$ 985,395</u>	<u>\$ 985,395</u>

The following interfund receivables/payables existed at December 31, 2020:

	Due From Other Funds	Due To Other Funds
General	\$ -	\$ 261,423
Highway Tax	-	90,390
City Sales Tax	339,841	-
Nonmajor Governmental	11,972	-
Electric	383,222	-
Sewer	-	383,222
	<u>\$ 735,035</u>	<u>\$ 735,035</u>

City of Hillsboro, North Dakota

Notes to Financial Statements

December 31, 2022, 2021, and 2020

The following interfund transfers were made during the year ended December 31, 2022:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 150,000	\$ -
Highway Tax	195,675	5,000
City Sales Tax	-	40,000
Debt Service	35,000	46,000
Capital Projects	25,000	-
Nonmajor Governmental	5,000	25,675
Total governmental funds	<u>410,675</u>	<u>116,675</u>
Proprietary Funds		
Water	46,000	5,000
Electric	-	325,000
Sewer	-	5,000
Sanitation	-	5,000
Total proprietary funds	<u>46,000</u>	<u>340,000</u>
Total transfers	<u>\$ 456,675</u>	<u>\$ 456,675</u>

The following interfund transfers were made during the year ended December 31, 2021:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 153,228	\$ 5,000
Highway Tax	170,000	5,000
City Sales Tax	-	58,000
Debt Service	53,000	-
Capital Projects	25,000	-
Nonmajor Governmental	10,000	3,228
Total governmental funds	<u>411,228</u>	<u>71,228</u>
Proprietary Funds		
Water	-	5,000
Electric	-	325,000
Sewer	-	5,000
Sanitation	-	5,000
Total proprietary funds	<u>-</u>	<u>340,000</u>
Total transfers	<u>\$ 411,228</u>	<u>\$ 411,228</u>

The following interfund transfers were made during the year ended December 31, 2020:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 150,000	\$ 9,000
Highway Tax	207,300	5,000
City Sales Tax	-	45,000
Debt Service	35,000	-
Capital Projects	175,000	440,692
Nonmajor Governmental	44,000	-
Total governmental funds	611,300	499,692
Proprietary Funds		
Water	117,300	30,000
Electric	88,792	395,000
Sewer	117,300	5,000
Sanitation	-	5,000
Total proprietary funds	323,392	435,000
Total transfers	\$ 934,692	\$ 934,692

Transfers are made for funding various projects, operational expenses, and meeting debt service requirements.

Note 7 - Retirement Plan

The City of Hillsboro provides a retirement plan for city employees. The profit-sharing plan is a 401a defined contribution plan in which the city contributes up to 8% of gross salaries for each eligible employee. An employee's contribution can be any amount less than or equal to the amount allowed by the Federal Government. Contributions are determined on base salary and exclude any overtime or bonuses earned by employees. The plan uses the hour of service method. To initially be eligible for the plan, the employee must complete one year of service and at least 21 years old. Additionally, the employee must be credited with 1,000 hours of service in the twelve-month period beginning with the first day of work and ending on the anniversary date of the first day of work. An employee must have 1,000 hours of service in any plan year to remain eligible. Up to 501 hours of leave in any plan year may be counted toward hours of service. A break in service is considered when the employee is not credited with or paid for at least 500 hours of service. Once eligibility requirements are met for plan participation, an employee begins actual participation in the plan on the first day of the month coinciding with or next following the date the requirements were met. The employee is subject to a vesting schedule based on years of service. A deduction is made monthly and forwarded to the plan account, which is maintained by Bell Bank. Upon termination of employment, the employee will receive his or her vested portion of the contribution. The City's share of pension costs for the years ended December 31, 2022, 2021 and 2020 were \$33,757, \$30,869, and \$31,914 respectively.

Note 8 - Risk Management

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and for automobile, and \$1,736,031 for public assets (mobile equipment and portable property).

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 9 - Subsequent Events

Subsequent to year end, the City issued \$585,000 of revenue bonds through USDA Rural Development. The proceeds of this issuance will be used to refund the temporary revenue bonds of 2022. The bonds bear an interest rate of 1.75% and call for annual payments of principal and interest commencing in 2024. The bonds will be paid from the net revenues of the water and sewer utilities.



Additional Reports
December 31, 2022, 2021, and 2020
City of Hillsboro, North Dakota



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of City Commissioners
City of 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, North Dakota ("the City"), as of and for the years ended December 31, 2022, 2021, and 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 7, 2024, in which we express adverse opinions on the governmental activities, the business-type activities, and the major business-type funds for the years ended December 31, 2022, 2021, and 2020; a qualified opinion on the major governmental funds and the aggregate remaining governmental fund information for the year ended December 31, 2020, due to the City not recording capital assets and being unable to obtain sufficient audit evidence to support transactions for various receipts and disbursements, respectively.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001, 2022-002, 2022-003, 2022-004, and 2022-005 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's modified cash basis 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
May 7, 2024

Financial Statement Findings

**2022-001 Segregation of Duties
Material Weakness**

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

Condition – The City has a lack of segregation of duties in certain areas due to a limited staff.

Cause – There is a limited amount of office employees.

Effect – Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would-be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – The functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials – There is no disagreement with the audit finding.

2022-002 Preparation of Financial Statements
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the City’s financial statements.

Condition – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect – The disclosures in the financial statements could be incomplete.

Recommendation – This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – There is no disagreement with the audit finding.

2022-003 Adjusting Journal Entries
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition – During the course of our engagement, we proposed numerous audit adjustments that would not have been identified as a result of the City’s existing internal controls, and therefore could have resulted in a misstatement of the City’s financial statements.

Cause – The City does not have an internal control system designed to identify all necessary adjustments.

Effect – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials – There is no disagreement with the audit finding.

**2022-004 Inadequate Bank Reconciliation
Material Weakness**

Criteria – A good system of internal accounting control contemplates an adequate system for the accurate completion of the monthly bank reconciliations.

Condition – The bank reconciliations did not agree to the cash balances recorded in the City’s accounting system.

Cause – The City does not have an internal control system designed to ensure the accurate completion of the monthly bank reconciliations.

Effect – This deficiency could result in a misstatement to the financial statements that would not be prevented or detected in a timely manner.

Recommendation – A process should be put in place to ensure that the monthly bank reconciliations are completed accurately and in agreement with the City’s accounting records.

Views of Responsible Officials – There is no disagreement with the audit finding.

**2022-005 Capital Asset Records
Material Weakness**

Criteria – A good system of internal accounting control under the modified cash basis of accounting provides for the recording of capital assets, net of accumulated depreciation, for the governmental activities, business-type activities, and major business-type funds.

Condition – The City does not maintain complete capital asset records for the governmental activities, the business-type activities, and the major business-type funds.

Cause – Historically, the City has not maintained a listing of capital assets.

Effect – The modified cash basis financial statements do not provide a full depiction of the City’s financial position.

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

Views of Responsible Officials – There is no disagreement with the audit finding.