

AUDIT REPORT

CITY OF HEBRON
Hebron, North Dakota

For the Year Ended December 31, 2016

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HEBRON
Hebron, North Dakota

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CITY OF HEBRON
Hebron, North Dakota

CITY OFFICIALS

Grant Walth	Mayor
Harvey Tibor	Council President
Chester Brandt	Council Vice President
Michael Coots	Council Member
Steven Dittus	Council Member
Rebecca Heinle	Council Member
Jim Staiger	Council Member
Erin Brink	Auditor

Rath & Mehler

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hebron
Hebron, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hebron, Hebron, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hebron, Hebron, North Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

January 27, 2017

CITY OF HEBRON

Management's Discussion and Analysis

December 31, 2016

The Management's Discussion and Analysis (MD&A) of the City of Hebron's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2016. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city decreased \$71,777 as a result of the current year's operations. Net position of the governmental activities decreased \$171,986 and net position of the business-type activities increased \$100,209.
- * Governmental net position totaled \$1,430,584 and business-type net position totaled \$664,959.
- * Total revenues from all sources were \$369,211 for governmental activities and \$361,533 for business-type activities.
- * Total expenses were \$551,421 for governmental activities and \$251,099 for business-type activities.
- * The city's general fund had \$219,650 in total revenues and \$277,063 in total expenditures. There was a total of \$9,542 from other financing sources. Overall, the general fund balance decreased by \$47,871 for the year ended December 31, 2016.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- * Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- * Business-Type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2016?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, culture and recreation, and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, highway distribution fund and street, water and sewer improvement 2016 fund are considered "major governmental funds". The city's water fund, sewer fund and garbage fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds" or "Other Enterprise Fund".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2016. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position decreased by \$71,777 for the year ended December 31, 2016. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2016, the city's net position of \$2,095,543 is segregated into three separate categories. Net investment in capital assets represents 70% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 12% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 18% of the city's net position and is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	28,473	597,499
Capital Assets (net of accumulated depreciation)	3,786,440	194,609
Total Assets	<u>3,814,913</u>	<u>792,108</u>
<u>Liabilities</u>		
Current Liabilities	270,000	27,567
Long-Term Liabilities	2,114,329	99,582
Total Liabilities	<u>2,384,329</u>	<u>127,149</u>
<u>Net Position</u>		
Net Investment in Capital		
Assets	1,402,111	67,460
Restricted	257,948	
Unrestricted	(229,476)	597,499
Total Net Position	<u>1,430,584</u> =====	<u>664,959</u> =====

Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	350,214	499,209
Capital Assets (net of accumulated depreciation)	1,252,355	214,555
Total Assets	<u>1,602,569</u>	<u>713,764</u>
<u>Liabilities</u>		
Current Liabilities		21,865
Long-Term Liabilities		127,149
Total Liabilities	<u>0</u>	<u>149,014</u>
<u>Net Position</u>		
Net Investment in Capital		
Assets	1,252,355	65,541
Restricted	282,534	
Unrestricted	67,680	499,209
Total Net Position	<u>1,602,569</u> =====	<u>564,751</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2016. A comparative analysis of city-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	17,672	360,754
Operating Grants and Contributions	70,062	
<u>General Revenues:</u>		
Property Taxes	130,136	
Other Taxes	11,682	
Intergovernmental - Unrestricted	65,309	
Interest Earnings and Other Revenue	74,350	779
Total Revenues	<u>369,211</u>	<u>361,533</u>
<u>Expenses</u>		
General Government	224,860	
Public Safety	43,130	
Streets and Public Works	159,339	
Health and Welfare	54,632	
Culture and Recreation	41,278	
Other	28,182	
Water		118,200
Sewer		31,080
Garbage		101,820
Total Expenses	<u>551,421</u>	<u>251,099</u>
Net Change in Position Before Transfers	<u>(182,211)</u>	<u>110,434</u>
Transfers	10,225	(10,225)
Net Change in Position	<u>(171,986)</u> =====	<u>100,209</u> =====

Property taxes constituted 18%, unrestricted intergovernmental 9%, operating grants and contributions 10%, and charges for services made up 52% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 28%, public safety 5%, streets and public works 20%, and enterprise 31% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	9,530	363,469
Operating Grants and Contributions	409,625	
<u>General Revenues:</u>		
Property Taxes	148,138	
Other Taxes	2,425	
Intergovernmental - Unrestricted	74,114	
Interest Earnings and Other Revenue	25,410	9,252
Total Revenues	<hr/> 669,241	<hr/> 372,722
Expenses		
General Government	195,493	
Public Safety	39,360	
Streets and Public Works	138,241	
Health and Welfare	13,549	
Conservation of Natural Resources	30	
Culture and Recreation	39,065	
Other	31,629	
Interest on Long-Term Debt	2,494	
Water		184,086
Sewer		27,220
Garbage		84,429
Total Expenses	<hr/> 459,861	<hr/> 295,735
Net Change in Position Before Transfers	<hr/> 209,380	<hr/> 76,986
Transfers	<hr/> (70,177)	<hr/> 70,177
Net Change in Position	<hr/> 139,203	<hr/> 147,164
	=====	=====

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III
Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended <u>Dec. 31, 2016</u>	Net Cost Year Ended <u>Dec. 31, 2016</u>
General Government	224,860	216,062
Public Safety	43,130	42,550
Streets and Public Works	159,339	103,642
Health and Welfare	54,632	47,507
Culture and Recreation	41,278	25,744
Other	28,182	28,182
Total Expenses	<u>551,421</u> =====	<u>463,687</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$369,211 and expenditures of \$3,085,506 for the year ended December 31, 2016. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$18,902 and total unassigned fund balances for all of the city's governmental funds was (\$230,383).

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2016, the city did not amend the general fund budget.

Actual revenue for the year ended December 31, 2016 was \$54,629 less than budgeted. This variance was due to the city overestimating collections for taxes. Actual expenditures for the year ended December 31, 2016 were over budget by \$11,263.

CAPITAL ASSETS

As of December 31, 2016, the city had \$3,981,049 invested in capital assets. The following table show the balances, for governmental and business-type activities, as of December 31, 2016 and 2015.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Construction in Progress	2,630,513	
Buildings and Infrastructure	1,086,921	54,628
Machinery and Vehicles	69,006	139,981
Total (net of depreciation)	<u>3,786,440</u> =====	<u>194,609</u> =====

This total represents an increase of \$2,514,139 in capital assets from January 1, 2016. During the year ended December 31, 2016 the construction in progress increased due to a street, water and sewer infrastructure project. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	1,173,322	62,276
Machinery and Vehicles	79,033	152,279
Total (net of depreciation)	<u>1,252,355</u> =====	<u>214,555</u> =====

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$2,511,478 in outstanding debt of which \$297,567 was due within one year. During fiscal year 2016, the city issued two new long-term debt obligations:

Special Assessment Bonds Payable in the amount of \$2,288,000. The city issued the Definitive Improvement Warrants, Series 2016A to provide funds for a street, water and sewer infrastructure project. During the year, the city obtained drawdowns of \$1,777,577 as part of the Drinking Water State Revolving Fund for this project. These bonds will have a final payment on September 1, 2026.

Special Assessment Bonds Payable in the amount of \$682,000. The city issued the Definitive Improvement Warrants, Series 2016B to provide funds for a street, water and sewer infrastructure project. During the year, the city obtained drawdowns of \$606,752 as part of the Clean Water State Revolving Fund for this project. These bonds will have a final payment on September 1, 2026.

For a detailed breakdown of the long-term debt, readers are referred to Note 5 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Erin Brink, City Auditor, Hebron, ND.

CITY OF HEBRON
Hebron, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	28,472.54	597,499.31	625,971.85
Capital Assets (net of accumulated depreciation):			
Construction in Progress	2,630,513.00		2,630,513.00
Buildings and Infrastructure	1,086,921.00	54,628.00	1,141,549.00
Machinery and Vehicles	69,006.00	139,981.00	208,987.00
Total Capital Assets	3,786,440.00	194,609.00	3,981,049.00
Total Assets	3,814,912.54	792,108.31	4,607,020.85
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loan Payable		20,567.10	20,567.10
Special Assessment Bonds Payable	270,000.00		270,000.00
Revenue Bonds Payable		7,000.00	7,000.00
Due After One Year:			
Bank Loan Payable		69,581.84	69,581.84
Special Assessment Bonds Payable	2,114,329.00		2,114,329.00
Revenue Bonds Payable		30,000.00	30,000.00
Total Liabilities	2,384,329.00	127,148.94	2,511,477.94
NET POSITION:			
Net Investment in Capital Assets	1,402,111.00	67,460.06	1,469,571.06
Restricted for:			
Special Purposes	257,948.34		257,948.34
Unrestricted	(229,475.80)	597,499.31	368,023.51
Total Net Position	1,430,583.54	664,959.37	2,095,542.91

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Functions/Programs</u>					
Primary Government:					
<u>Governmental Activities:</u>					
General Government	224,860.24	8,798.64		(216,061.60)	(216,061.60)
Public Safety	43,129.68	580.00		(42,549.68)	(42,549.68)
Streets and Public Works	159,339.00	1,168.51	54,528.07	(103,642.42)	(103,642.42)
Health and Welfare	54,631.88	7,125.00		(47,506.88)	(47,506.88)
Culture and Recreation	41,278.48		15,534.35	(25,744.13)	(25,744.13)
Other	28,182.17			(28,182.17)	(28,182.17)
Total Governmental Activities	551,421.45	17,672.15	70,062.42	(463,686.88)	(463,686.88)
<u>Business-Type Activities:</u>					
Water	118,199.80	203,334.97		85,135.17	85,135.17
Sewer	31,079.80	59,402.75		28,322.95	28,322.95
Garbage	101,819.84	98,016.63		(3,803.21)	(3,803.21)
Total Business-Type Activities	251,099.44	360,754.35		109,654.91	109,654.91
Total Primary Government	802,520.89	378,426.50	70,062.42	(463,686.88)	109,654.91
===== General Revenues:					
Taxes:					
Property taxes; levied for general purposes			120,667.87		120,667.87
Property taxes; levied for special purposes			9,467.72		9,467.72
Cigarette taxes			2,260.89		2,260.89
Telecommunication tax			2,078.42		2,078.42
Homestead tax credit			6,282.98		6,282.98
Disabled veterans tax credit			1,059.23		1,059.23
Intergovernmental revenue not restricted to specific programs			65,309.42		65,309.42
Earnings on investments and other revenue			74,349.64	778.88	75,128.52
Transfers			10,225.00	(10,225.00)	
Total General Revenues and Transfers			291,701.17	(9,446.12)	282,255.05
Change in Net Position			(171,985.71)	100,208.79	(71,776.92)
Net Position - January 1			1,602,569.25	564,750.58	2,167,319.83
Net Position - December 31			1,430,583.54	664,959.37	2,095,542.91
=====					

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

CITY OF HEBRON
Hebron, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2016

	Major Funds				
	General	Highway Distribution	Street, Water and Sewer Imp. 2016	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents				28,472.54	28,472.54
Interfund Receivable	18,902.04	144,553.80		85,829.34	249,285.18
<hr/>					
Total Assets	18,902.04	144,553.80	-0-	114,301.88	277,757.72
<hr style="border-top: 1px dashed black;"/>					
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund Payable			249,285.18		249,285.18
<hr/>					
Fund Balances:					
Restricted for:					
Streets and Public Works		144,553.80			144,553.80
Emergency Purposes				51,238.77	51,238.77
City Share of Specials				52,722.96	52,722.96
Hebron Clinic				525.89	525.89
Other Purposes				8,906.92	8,906.92
Assigned to:					
Building Repair				907.34	907.34
Unassigned	18,902.04		(249,285.18)		(230,383.14)
<hr/>					
Total Fund Balances	18,902.04	144,553.80	(249,285.18)	114,301.88	28,472.54
<hr/>					
Total Liabilities and Fund Balances	18,902.04	144,553.80	-0-	114,301.88	277,757.72
<hr style="border-top: 1px dashed black;"/>					

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

CITY OF HEBRON
Hebron, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds		28,472.54
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	5,175,733.00	
Less Accumulated Depreciation	(1,389,293.00)	
Net Capital Assets		<u>3,786,440.00</u>
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are:		
Special Assessment Bonds Payable		<u>(2,384,329.00)</u>
Total Net Position of Governmental Activities		<u><u>1,430,583.54</u></u>

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2016

	Major Funds				Total Governmental Funds
	General	Highway Distribution	Street, Water and Sewer Imp. 2016	Other Governmental Funds	
Revenues:					
Taxes	123,421.49	13.24		8,991.29	132,426.02
Licenses, Permits and Fees	8,798.64				8,798.64
Intergovernmental	78,671.09	54,528.07		10,125.58	143,324.74
Charges for Services	262.50	694.00			956.50
Fines and Forfeits	580.00				580.00
Miscellaneous	7,916.54	6,280.69		68,927.61	83,124.84
Total Revenues	219,650.26	61,516.00		88,044.48	369,210.74
Expenditures:					
Current:					
General Government	212,200.68			468.56	212,669.24
Public Safety	43,129.68				43,129.68
Streets and Public Works	15,289.34	59,812.18	0.48		75,102.00
Health and Welfare				54,631.88	54,631.88
Culture and Recreation	6,443.66			34,834.82	41,278.48
Other				28,182.17	28,182.17
Capital Outlay			2,630,513.00		2,630,513.00
Total Expenditures	277,063.36	59,812.18	2,630,513.48	118,117.43	3,085,506.45
Excess (Deficiency) of Revenues Over Expenditures	(57,413.10)	1,703.82	(2,630,513.48)	(30,072.95)	(2,716,295.71)
Other Financing Sources (Uses):					
Transfers In	41,739.53			46,224.72	87,964.25
Transfers Out	(32,197.45)		(3,100.70)	(42,441.10)	(77,739.25)
Special Assessment Bonds Issued			2,384,329.00		2,384,329.00
Total Other Financing Sources (Uses)	9,542.08		2,381,228.30	3,783.62	2,394,554.00
Net Change in Fund Balances	(47,871.02)	1,703.82	(249,285.18)	(26,289.33)	(321,741.71)
Fund Balance - January 1	66,773.06	142,849.98	-0-	140,591.21	350,214.25
Fund Balance - December 31	18,902.04	144,553.80	(249,285.18)	114,301.88	28,472.54

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

CITY OF HEBRON
Hebron, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds (321,741.71)

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

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

Current Year Capital Outlay	2,630,513.00	
Current Year Depreciation Expense	(96,428.00)	2,534,085.00

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

Debt Proceeds	(2,384,329.00)	
Repayment of Debt	0.00	(2,384,329.00)

Change in Net Position of Governmental Activities (171,985.71)

=====

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2016

	Major Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Other Enterprise Fund	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	232,508.45	189,953.13	169,927.37	5,110.36	597,499.31
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Buildings and Infrastructure	5,472.00	49,156.00			54,628.00
Machinery and Vehicles			139,981.00		139,981.00
Total Noncurrent Assets	5,472.00	49,156.00	139,981.00		194,609.00
Total Assets	237,980.45	239,109.13	309,908.37	5,110.36	792,108.31
LIABILITIES					
Current Liabilities:					
Bank Loan Payable			20,567.10		20,567.10
Revenue Bonds Payable		7,000.00			7,000.00
Total Current Liabilities		7,000.00	20,567.10		27,567.10
Noncurrent Liabilities:					
Bank Loan Payable			69,581.84		69,581.84
Revenue Bonds Payable		30,000.00			30,000.00
Total Noncurrent Liabilities		30,000.00	69,581.84		99,581.84
Total Liabilities		37,000.00	90,148.94		127,148.94
NET POSITION					
Net Investment in Capital Assets	5,472.00	12,156.00	49,832.06		67,460.06
Unrestricted	232,508.45	189,953.13	169,927.37	5,110.36	597,499.31
Total Net Position	237,980.45	202,109.13	219,759.43	5,110.36	664,959.37

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds

For the Year Ended December 31, 2016

	Major Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Other Enterprise Fund	Total Enterprise Funds
Operating Revenues:					
Charges for Sales and Services:					
Water Collections	190,294.77				190,294.77
Sewer Collections		47,495.77			47,495.77
Garbage Collections			89,348.41		89,348.41
Landfill Fees			8,668.22		8,668.22
Surcharges	10,791.05	11,841.98			22,633.03
Utility Penalty				1,189.15	1,189.15
Other Fees	1,060.00	65.00			1,125.00
Total Operating Revenues	202,145.82	59,402.75	98,016.63	1,189.15	360,754.35
Operating Expenses:					
Operation and Maintenance	13,031.48	9,486.17	49,070.32		71,587.97
Salaries	13,112.55	11,083.87	37,261.03		61,457.45
Water Purchase	84,091.64				84,091.64
Utilities	2,913.07	4,291.26			7,204.33
Repairs	892.50				892.50
Miscellaneous	1,426.56				1,426.56
Depreciation	2,732.00	4,916.00	12,298.00		19,946.00
Total Operating Expenses	118,199.80	29,777.30	98,629.35		246,606.45
Operating Income (Loss)	83,946.02	29,625.45	(612.72)	1,189.15	114,147.90
Non-Operating Revenues (Expenses):					
Interest Income	106.80	173.36	498.72		778.88
Interest Payment		(1,100.00)	(3,190.49)		(4,290.49)
Administrative Fees		(202.50)			(202.50)
Total Non-Operating Revenues (Expenses)	106.80	(1,129.14)	(2,691.77)		(3,714.11)
Income (Loss) Before Transfers	84,052.82	28,496.31	(3,304.49)	1,189.15	110,433.79
Transfers Out			(10,225.00)		(10,225.00)
Change in Net Position	84,052.82	28,496.31	(13,529.49)	1,189.15	100,208.79
Net Position - January 1	153,927.63	173,612.82	233,288.92	3,921.21	564,750.58
Net Position - December 31	237,980.45	202,109.13	219,759.43	5,110.36	664,959.37

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Garbage Fund		
<u>Cash flows from operating activities:</u>					
Receipts from customers	202,145.82	59,402.75	98,016.63	1,189.15	360,754.35
Payments to suppliers	(102,355.25)	(13,777.43)	(49,070.32)		(165,203.00)
Payments to employees	(13,112.55)	(11,083.87)	(37,261.03)		(61,457.45)
Net cash provided (used) by operating activities	86,678.02	34,541.45	11,685.28	1,189.15	134,093.90
<u>Cash flows from noncapital financing activities:</u>					
Transfers out			(10,225.00)		(10,225.00)
<u>Cash flows from capital and related financing activities:</u>					
Principal payments on loan payable			(14,864.65)		(14,864.65)
Interest payments on loan payable			(3,190.49)		(3,190.49)
Principal payments on revenue bonds		(7,000.00)			(7,000.00)
Interest payments on revenue bonds		(1,100.00)			(1,100.00)
Administrative fees on revenue bonds		(202.50)			(202.50)
Net cash provided (used) by capital and related financing activities		(8,302.50)	(18,055.14)		(26,357.64)
<u>Cash flows from investing activities:</u>					
Interest income	106.80	173.36	498.72		778.88
Net increase in cash and cash equivalents	86,784.82	26,412.31	(16,096.14)	1,189.15	98,290.14
Cash and cash equivalents, January 1	145,723.63	163,540.82	186,023.51	3,921.21	499,209.17
Cash and cash equivalents, December 31	232,508.45	189,953.13	169,927.37	5,110.36	597,499.31
=====					
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>					
Operating income (loss)	83,946.02	29,625.45	(612.72)	1,189.15	114,147.90
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	2,732.00	4,916.00	12,298.00		19,946.00
Net cash provided (used) by operating activities	86,678.02	34,541.45	11,685.28	1,189.15	134,093.90
=====					

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

CITY OF HEBRON
Hebron, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Agency Funds
December 31, 2016

	Agency Funds
<u>Assets:</u>	
Cash and Cash Equivalents	18,565.82
	=====
<u>Liabilities:</u>	
Due to Other Governments	18,565.82
	=====

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

CITY OF HEBRON
Hebron, North Dakota

Notes to the Financial Statements
December 31, 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

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

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

Street, Water and Sewer Improvement 2016. This fund accounts for the proceeds from the Definitive Improvement Warrants, Series 2016A and 2016B that were used for replacing the asphalt road, sanitary sewer lines and water mains on Main Avenue and Elm Street.

The city reports the following major enterprise funds:

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

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

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

The city reports the following fund type:

Agency Funds. These funds accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency fund is used to account for deposits of the Hebron Business and Industry fund and payroll withholdings.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

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

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

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

D. Cash and Cash Equivalents

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

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

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

F. Compensated Absences

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

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

G. Long-Term Obligations

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

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

H. Fund Equity

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

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

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

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

I. Interfund Transactions

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

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

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

J. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2016 the city's carrying amount of deposits was \$644,538 and the bank balance was \$1,182,561. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$932,561 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2016 the city held certificates of deposit in the amount of \$274,845, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in Progress		2,630,513		2,630,513
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	2,393,250			2,393,250
Machinery and Vehicles	151,970			151,970
Total	2,545,220			2,545,220
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,219,928	86,401		1,306,329
Machinery and Vehicles	72,937	10,027		82,964
Total	1,292,865	96,428		1,389,293
Total capital assets being depreciated, net	1,292,865	(96,428)		1,155,927
Governmental Activities Capital Assets, Net	1,252,355	2,534,085	-0-	3,786,440

	Balance January 1	Increases	Decreases	Balance December 31
Business-Type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	262,762			262,762
Machinery and Vehicles	247,336			247,336
Total	510,098			510,098
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	200,486	7,648		208,134
Machinery and Vehicles	95,057	12,298		107,355
Total	295,543	19,946		315,489
Business-Type Activities Capital Assets, Net	214,555	(19,946)	-0-	194,609

Depreciation expense was charged to functions/programs of the city as follows:

<u>Governmental Activities:</u>	
General Government	12,191
Streets and Public Works	84,237
Total	96,428
<u>Business-Type Activities:</u>	
Water Fund	2,732
Sewer Fund	4,916
Garbage Fund	12,298
Total	19,946

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Special Assessment Bonds Payable	-0-	2,384,329	-0-	2,384,329	270,000

Business-Type Activities (Proprietary Funds):

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bank Loan Payable	105,014		14,865	90,149	20,567
Revenue Bonds Payable	44,000		7,000	37,000	7,000
Total	149,014	-0-	21,865	127,149	20,567

Outstanding debt at December 31, 2016 consists of the following:

Governmental Activities:

Special Assessment Debt. The city has issued special assessment bonds to provide funds for a street, water and sewer infrastructure project. Special assessment bonds outstanding at December 31, 2016 are as follows:

The city received funding as part of the Clean Water State Revolving Fund program from the North Dakota Public Finance Authority. The city is in the process of replacing the asphalt road, sanitary sewer lines and water mains on Main Avenue and Elm Street and issued the Definitive Improvement Warrant, Series 2016B in the amount of \$682,000. As of December 31, 2016, the city has requested drawdowns of \$606,752. The project was not completed as of December 31, 2016 and a final debt service repayment schedule is not yet available since the city had not received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2016 was \$606,752. \$75,248 is still available at December 31, 2016.

The city also received funding as part of the Drinking Water State Revolving Fund program from the North Dakota Public Finance Authority. The city is in the process of replacing the asphalt road, sanitary sewer lines and water mains on Main Avenue and Elm Street and issued the Definitive Improvement Warrant, Series 2016A in the amount of \$2,288,000. As of December 31, 2016, the city has requested drawdowns of \$1,777,577. The project was not completed as of December 31, 2016 and a final debt service repayment schedule is not yet available since the city had not received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2016 was \$1,777,577. \$510,423 is still available at December 31, 2016.

Business-Type Activities:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2016, is as follows:

Bank Loan Payable. The city received funding for the acquisition of a new garbage truck. Bank loan payable outstanding at December 31, 2016 is as follows:

\$174,114 Bank Loan Payable with Dakota Community Bank due in quarterly installments of \$6,018 through October 5, 2019 and a final installment of \$26,018 on January 5, 2020; interest is at 4.25%. 90,148.94

=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	20,567.10	3,506.42
2018	21,455.22	2,618.30
2019	22,381.70	1,691.82
2020	25,744.92	273.54
Total	90,148.94	8,090.08

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 are as follows:

\$122,890 Sewer Improvement Revenue Bonds of 2001; due in annual installments of \$7,000 to \$8,000 through September 1, 2021; interest is at 2.5%.	37,000.00
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The annual requirements to amortize the outstanding revenue bonds are as follows:

Business-Type Activities:

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	7,000.00	925.00
2018	7,000.00	750.00
2019	7,000.00	575.00
2020	8,000.00	400.00
2021	8,000.00	200.00
Total	37,000.00	2,850.00

Note 6 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	41,739.53	
Social Security		29,827.98
Forestry		8,300.83
Advertising		3.81
Insurance		3,606.91
To close funds with discontinued levies.		
Library	16,354.56	
General Fund		16,354.56
Community Hall	16,544.46	
General Fund		15,842.89
Public Office		701.57
Hebron Clinic	10,225.00	
Garbage Operating		10,225.00
To subsidize expenditures/eliminate deficit fund balances		
Community Center	3,100.70	
Street, Water and Sewer Improvement 2016		3,100.70
To reimbursement prior year project costs.		

Note 7 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$173,400 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$354,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 8 PENSION PLAN

The city provides benefits for all of its full-time employees through a defined contribution plan with Nationwide Retirement Solutions, Inc. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 2% of the employee's gross salary for the year. During the year ended December 31, 2016, the city contributed \$417.90.

CITY OF HEBRON
Hebron, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	178,069.50	178,069.50	123,421.49	(54,648.01)
Licenses, Permits and Fees	8,410.00	8,410.00	8,798.64	388.64
Intergovernmental	81,800.00	81,800.00	78,671.09	(3,128.91)
Charges for Services			262.50	262.50
Fines and Forfeits	100.00	100.00	580.00	480.00
Miscellaneous	5,900.00	5,900.00	7,916.54	2,016.54
Total Revenues	274,279.50	274,279.50	219,650.26	(54,629.24)
Expenditures:				
Current:				
General Government	196,400.00	196,400.00	212,200.68	(15,800.68)
Public Safety	47,900.00	47,900.00	43,129.68	4,770.32
Streets and Public Works	12,500.00	12,500.00	15,289.34	(2,789.34)
Culture and Recreation	9,000.00	9,000.00	6,443.66	2,556.34
Total Expenditures	265,800.00	265,800.00	277,063.36	(11,263.36)
Excess (Deficiency) of Revenues Over Expenditures	8,479.50	8,479.50	(57,413.10)	(65,892.60)
Other Financing Sources (Uses):				
Transfers In			41,739.53	41,739.53
Transfers Out			(32,197.45)	(32,197.45)
Total Other Financing Sources (Uses)			9,542.08	9,542.08
Net Change in Fund Balances	8,479.50	8,479.50	(47,871.02)	(56,350.52)
Fund Balance - January 1	66,773.06	66,773.06	66,773.06	
Fund Balance - December 31	75,252.56	75,252.56	18,902.04	(56,350.52)

CITY OF HEBRON
Hebron, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Highway Distribution Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	17,955.00	17,955.00	13.24	(17,941.76)
Intergovernmental	70,000.00	70,000.00	54,528.07	(15,471.93)
Charges for Services			694.00	694.00
Miscellaneous	300.00	300.00	6,280.69	5,980.69
Total Revenues	88,255.00	88,255.00	61,516.00	(26,739.00)
Expenditures:				
Current:				
Streets and Public Works	73,500.00	73,500.00	59,812.18	13,687.82
Excess (Deficiency) of Revenues Over Expenditures	14,755.00	14,755.00	1,703.82	(13,051.18)
Other Financing (Uses):				
Transfers Out	(7,321.43)	(7,321.43)		7,321.43
Net Change in Fund Balances	7,433.57	7,433.57	1,703.82	(5,729.75)
Fund Balance - January 1	142,849.98	142,849.98	142,849.98	
Fund Balance - December 31	157,604.98	157,604.98	144,553.80	(13,051.18)

CITY OF HEBRON
Hebron, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2016.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ending December 31, 2016:

General Fund	11,263.36
<u>Special Revenue Funds</u>	
* Social Security	468.56
Hebron Clinic	18,631.88

* A budget was not prepared for this fund.

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

CITY OF HEBRON
Hebron, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
Major Governmental Funds						
General Fund	66,773.06	219,650.26	41,739.53	32,197.45	277,063.36	18,902.04
Highway Distribution	142,849.98	61,516.00			59,812.18	144,553.80
Street, Water and Sewer Imp. 2016:						
Drinking Water SRF		1,777,577.00		2,387.54	1,775,189.89	(0.43)
Clean Water SRF		606,752.00		713.16	606,039.32	(0.48)
Paving Project					249,284.27	(249,284.27)
Total Major Governmental Funds	209,623.04	2,665,495.26	41,739.53	35,298.15	2,967,389.02	(85,829.34)
Nonmajor Governmental Funds						
Social Security	27,468.21	2,828.33		29,827.98	468.56	
Forestry	8,293.19	7.64		8,300.83		
Library		18,480.26	16,354.56		34,834.82	
Advertising		3.81		3.81		
Insurance Reserve	3,587.78	19.13		3,606.91		
Building Repair and Maintenance	907.34					907.34
Public Office	687.50	14.07		701.57		
Community Hall		6,753.93	16,544.46		23,298.39	
Community Center		10,690.00	3,100.70		4,883.78	8,906.92
City Share of Specials	52,418.90	304.06				52,722.96
Emergency Reserve	47,228.29	4,010.48				51,238.77
Hebron Clinic		44,932.77	10,225.00		54,631.88	525.89
Total Nonmajor Governmental Funds	140,591.21	88,044.48	46,224.72	42,441.10	118,117.43	114,301.88
Total Governmental Funds	350,214.25	2,753,539.74	87,964.25	77,739.25	3,085,506.45	28,472.54
Major Enterprise Funds						
Water Fund:						
Operating	97,359.35	191,461.57			115,467.80	173,353.12
Water Surcharge	48,364.28	10,791.05				59,155.33
Sewer Fund:						
Operating	60,493.84	47,607.35			33,163.80	74,937.39
Sewer Surcharge	83,464.99	10,740.71				94,205.70
Sewer Reserve	10,124.16	48.29				10,172.45
Municipal Waste Surcharge	9,457.83	1,179.76				10,637.59
Garbage	186,023.51	98,515.35		10,225.00	104,386.49	169,927.37
Total Major Enterprise Funds	495,287.96	360,344.08		10,225.00	253,018.09	592,388.95
Nonmajor Enterprise Fund						
Utility Penalty	3,921.21	1,189.15				5,110.36
Total Enterprise Funds	499,209.17	361,533.23		10,225.00	253,018.09	597,499.31
Fiduciary Fund						
Agency Funds						
Hebron Business and Industry	18,332.29	5.53				18,337.82
Payroll Withholding		26,577.37			26,349.37	228.00
Total Agency Funds	18,332.29	26,582.90			26,349.37	18,565.82
Total All Funds	867,755.71	3,141,655.87	87,964.25	87,964.25	3,364,873.91	644,537.67

CITY OF HEBRON
Hebron, North Dakota

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor Pass-Through Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Grant <u>Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Passed through the ND Public Finance Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	380869-02	606,752.00
Capitalization Grants for Drinking Water State Revolving Funds	66.468	3000473-01	1,777,577.00
Total Expenditures of Federal Awards			<u>2,384,329.00</u> =====

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

The de minimis indirect cost rate was not used.

Rath & Mehler

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hebron
Hebron, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hebron, Hebron, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated January 27, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

January 27, 2017

Rath & Mehler

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Hebron
Hebron, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Hebron's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the city's major federal program for the year ended December 31, 2016. The city's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the city's compliance.

Opinion on Each Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

January 27, 2017

CITY OF HEBRON
Hebron, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2016

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Noncompliance Material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major program(s):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major program(s):

CFDA Number

Name of Federal Program

66.468

Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2016 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.