



City of Hillsboro  
Hillsboro, North Dakota

# Audit Report

For the Year Ended December 31, 2017

**JOSHUA C. GALLION**  
**STATE AUDITOR**

Office of the State Auditor  
Division of Local Government

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CITY OF HILLSBORO  
Hillsboro, North Dakota

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December 31, 2017

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CITY OF HILLSBORO  
Hillsboro, North Dakota

December 31, 2017

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**CITY OFFICIALS**

Mark Forseth	President
Curt Kaufman	Vice-President
Lorraine Tibert	Board Member
Mike Kress	Board Member
Dave Sather	Board Member
Lesley Connelly	Auditor
Julie Bjorklund	Deputy Auditor
John Juelson	Attorney

**AUDITOR PERSONNEL**

Dave Mix	Audit Manager
Rick Kremer	In-Charge



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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## INDEPENDENT AUDITORS REPORT

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### Independent Auditor's Opinion

City Commission  
City of Hillsboro  
Hillsboro, North Dakota

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, North Dakota, as of and for the year ended December 31, 2017, 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 accounting principles generally accepted in the United States of America; this includes 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### **Summary of Opinions**

Governmental Activities	Adverse
Business-Type Activities	Adverse
Major Governmental Funds	Unmodified on modified cash basis
Major Business-Type Funds	Adverse
Aggregate Remaining Fund Information	Unmodified on modified cash basis

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

As discussed in Note 1 to the financial statements, management has not recorded capital assets in the governmental activities, the business-type activities and the major business-type funds and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities, the business-type activities and the major business-type funds. The amount by which this departure would affect the assets, net position and expenses of the governmental activities, the business-type activities and the business-type funds is not reasonably determinable.

**Adverse Opinions**

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities and the major business-type funds of the City of Hillsboro, North Dakota, as of December 31, 2017, and the changes in financial position thereof for the year then ended.

**Basis for Unmodified Opinion of Modified Cash Basis for Major Governmental Funds and Aggregate Remaining Fund Information**

As discussed in Note 1 to the financial statements, the City of Hillsboro, North Dakota, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position modified cash basis of each major governmental fund, and the aggregate remaining fund information of the governmental funds of the City of Hillsboro, North Dakota, as of December 31, 2017 and the respective changes in financial position modified cash basis thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

**Other Matters**

*Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information and notes to the required supplementary information* on pages 25-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**CITY OF HILLSBORO**

Independent Auditor's Report - Continued

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*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsboro's basic financial statements. The *schedule of fund activity arising from cash transactions* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2018 on our consideration of the City of Hillsboro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 of Hillsboro's internal control over financial reporting and compliance.

/s/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
May 2, 2018

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
December 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash	\$ 1,728,736	\$ 432,536	\$ 2,161,272
Investments	324,954	908,554	1,233,508
<b>Total Assets</b>	<b>\$ 2,053,690</b>	<b>\$ 1,341,090</b>	<b>\$ 3,394,780</b>
<b>LIABILITIES:</b>			
Benefits Payable	\$ 1,170	\$ 215	\$ 1,385
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	535,000	-	535,000
Revenue Bonds Payable	-	180,000	180,000
State Revolving Loan Fund Payable	109,000	-	109,000
Due After One Year:			
Special Assessment Bonds Payable	2,345,000	-	2,345,000
Revenue Bonds Payable	-	2,360,000	2,360,000
State Revolving Loan Fund Payable	534,000	-	534,000
<b>Total Liabilities</b>	<b>\$ 3,524,170</b>	<b>\$ 2,540,215</b>	<b>\$ 6,064,385</b>
<b>NET POSITION:</b>			
Restricted for:			
Public Works	\$ 136,313	\$ -	\$ 136,313
Economic/Job Development	505,956	-	505,956
Capital Improvements	187,462	-	187,462
General Government	5,264	-	5,264
Unrestricted	(2,305,475)	(1,199,125)	(3,504,600)
<b>Total Net Position</b>	<b>\$ (1,470,480)</b>	<b>\$ (1,199,125)</b>	<b>\$ (2,669,605)</b>

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
For the Year Ended December 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<u>Governmental Activities:</u>						
General Government	\$ 302,418	\$ 44,953	\$ -	\$ (257,465)	\$ -	\$ (257,465)
Public Safety	126,032	-	-	(126,032)	-	(126,032)
Public Works/Infrastructure	266,846	5,234	96,259	(165,353)	-	(165,353)
Culture and Recreation	84,304	7,150	-	(77,154)	-	(77,154)
Economic Development	81,312	-	-	(81,312)	-	(81,312)
Miscellaneous	30,538	-	-	(30,538)	-	(30,538)
Capital Outlay	149,596	-	-	(149,596)	-	(149,596)
Interest & Fees on Long-Term Debt	85,417	-	-	(85,417)	-	(85,417)
<b>Total Governmental Activities</b>	<b>\$ 1,126,463</b>	<b>\$ 57,337</b>	<b>\$ 96,259</b>	<b>\$ (972,867)</b>	<b>\$ -</b>	<b>\$ (972,867)</b>
<u>Business-Type Activities:</u>						
Water Funds	\$ 386,640	\$ 601,349	\$ -	\$ -	\$ 214,709	\$ 214,709
Electric Funds	2,082,314	2,272,440	-	-	190,126	190,126
Sewer Funds	96,348	115,329	-	-	18,981	18,981
Sanitation	227,502	230,515	-	-	3,013	3,013
<b>Total Business-Type Activities</b>	<b>\$ 2,792,804</b>	<b>\$ 3,219,633</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 426,829</b>	<b>\$ 426,829</b>
<b>Total Primary Government</b>	<b>\$ 3,919,267</b>	<b>\$ 3,276,970</b>	<b>\$ 96,259</b>	<b>\$ (972,867)</b>	<b>\$ 426,829</b>	<b>\$ (546,038)</b>
<u>General Revenues:</u>						
Taxes:						
Property taxes levied for general purposes	\$ 235,371	\$ -	\$ 235,371			
Property taxes levied for special purposes	303,681	-	303,681			
Property taxes levied for debt service	557,351	-	557,351			
Sales taxes	186,505	-	186,505			
State Aid Distribution	111,862	-	111,862			
Interest Income	1,707	1,753	3,460			
Miscellaneous Revenue	100,402	72,422	172,824			
Transfers	315,000	(315,000)	-			
<b>Total General Revenues and Transfers</b>	<b>\$ 1,811,879</b>	<b>\$ (240,825)</b>	<b>\$ 1,571,054</b>			
<b>Change in Net Position</b>	<b>\$ 839,012</b>	<b>\$ 186,004</b>	<b>\$ 1,025,016</b>			
<b>Net Position - January 1</b>	<b>\$ (2,309,492)</b>	<b>\$ (1,385,129)</b>	<b>\$ (3,694,621)</b>			
<b>Net Position - December 31</b>	<b>\$ (1,470,480)</b>	<b>\$ (1,199,125)</b>	<b>\$ (2,669,605)</b>			

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2017

	Major Funds						Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds	Other Governmental Funds	
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 219,703	\$ 45,380	\$ 329,871	\$ 169,045	\$ 868,341	\$ 96,396	\$ 1,728,736
Investments	-	-	176,085	18,417	123,876	6,576	324,954
Due from Other Funds	14,829	-	-	-	-	-	14,829
<b>Total Assets</b>	<b>\$ 234,532</b>	<b>\$ 45,380</b>	<b>\$ 505,956</b>	<b>\$ 187,462</b>	<b>\$ 992,217</b>	<b>\$ 102,972</b>	<b>\$ 2,068,519</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<u>Liabilities:</u>							
Benefits Payable	\$ 970	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ 1,170
Due to Other Funds	-	-	-	-	-	14,829	14,829
<b>Total Liabilities</b>	<b>\$ 970</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,029</b>	<b>\$ 15,999</b>
<u>Fund Balances:</u>							
Committed:							
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,264	\$ 5,264
Restricted:							
Debt Service	-	-	-	-	992,217	-	992,217
Public Works	-	45,380	-	-	-	90,933	136,313
Economic Development	-	-	505,956	-	-	-	505,956
Capital Improvements	-	-	-	187,462	-	-	187,462
Unassigned							
General Fund	233,562	-	-	-	-	-	233,562
Negative Fund Balances	-	-	-	-	-	(8,254)	(8,254)
<b>Total Fund Balances</b>	<b>\$ 233,562</b>	<b>\$ 45,380</b>	<b>\$ 505,956</b>	<b>\$ 187,462</b>	<b>\$ 992,217</b>	<b>\$ 87,943</b>	<b>\$ 2,052,520</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 234,532</b>	<b>\$ 45,380</b>	<b>\$ 505,956</b>	<b>\$ 187,462</b>	<b>\$ 992,217</b>	<b>\$ 102,972</b>	<b>\$ 2,068,519</b>

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

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CITY OF HILLSBORO  
Hillsboro, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2017

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Total *Fund Balances* for Governmental Funds \$ 2,052,520

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

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. All liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2017 are:

Special Assessment Bonds Payable	\$ (2,880,000)	
Loans Payable	<u>(643,000)</u>	<u>(3,523,000)</u>
Total Net Position of Governmental Activities		<u>\$ (1,470,480)</u>

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2017

	Major Funds						Total Governmental Funds
	General Fund	Highway Tax Fund	City Sales Tax Fund	Capital Project Funds	Debt Service Funds	Other Governmental Funds	
<b>Revenues:</b>							
Property Taxes	\$ 235,371	\$ -	\$ -	\$ -	\$ 290,819	\$ 12,862	\$ 539,052
Sales Taxes	-	-	186,505	-	-	-	186,505
Special Assessments	-	-	-	-	557,351	-	557,351
Licenses, Permits and Fees	44,953	-	-	-	-	-	44,953
Intergovernmental	111,862	96,259	-	-	-	-	208,121
Charges for Services	-	-	-	-	-	12,384	12,384
Interest Income	1,178	-	295	37	187	10	1,707
Miscellaneous	25,606	700	-	500	46,076	27,520	100,402
<b>Total Revenues</b>	<b>\$ 418,970</b>	<b>\$ 96,959</b>	<b>\$ 186,800</b>	<b>\$ 537</b>	<b>\$ 894,433</b>	<b>\$ 52,776</b>	<b>\$ 1,650,475</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General Government	\$ 192,451	\$ -	\$ -	\$ -	\$ -	\$ 109,967	\$ 302,418
Public Safety	126,032	-	-	-	-	-	126,032
Public Works	-	195,072	-	-	-	71,774	266,846
Culture and Recreation	84,304	-	-	-	-	-	84,304
Economic Development	-	-	62,628	-	-	18,684	81,312
Other	30,538	-	-	-	-	-	30,538
Capital Outlay	-	-	-	98,596	51,000	-	149,596
Dept Service:							
Principal	-	-	-	-	647,000	-	647,000
Interest	-	-	-	-	74,793	-	74,793
Fees	-	-	-	-	10,624	-	10,624
<b>Total Expenditures</b>	<b>\$ 433,325</b>	<b>\$ 195,072</b>	<b>\$ 62,628</b>	<b>\$ 98,596</b>	<b>\$ 783,417</b>	<b>\$ 200,425</b>	<b>\$ 1,773,463</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (14,355)</b>	<b>\$ (98,113)</b>	<b>\$ 124,172</b>	<b>\$ (98,059)</b>	<b>\$ 111,016</b>	<b>\$ (147,649)</b>	<b>\$ (122,988)</b>
<b>Other Financing Sources (Uses):</b>							
Transfers In	\$ 170,110	\$ 70,000	\$ -	\$ 170,000	\$ 35,000	\$ 80,694	\$ 525,804
Transfers Out	(56,694)	(5,000)	(149,000)	-	-	(110)	(210,804)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 113,416</b>	<b>\$ 65,000</b>	<b>\$ (149,000)</b>	<b>\$ 170,000</b>	<b>\$ 35,000</b>	<b>\$ 80,584</b>	<b>\$ 315,000</b>
<b>Net Change in Fund Balances</b>	<b>\$ 99,061</b>	<b>\$ (33,113)</b>	<b>\$ (24,828)</b>	<b>\$ 71,941</b>	<b>\$ 146,016</b>	<b>\$ (67,065)</b>	<b>\$ 192,012</b>
<b>Fund Balances - January 1</b>	<b>\$ 134,501</b>	<b>\$ 78,493</b>	<b>\$ 530,784</b>	<b>\$ 115,521</b>	<b>\$ 846,201</b>	<b>\$ 155,008</b>	<b>\$ 1,860,508</b>
<b>Fund Balance - December 31</b>	<b>\$ 233,562</b>	<b>\$ 45,380</b>	<b>\$ 505,956</b>	<b>\$ 187,462</b>	<b>\$ 992,217</b>	<b>\$ 87,943</b>	<b>\$ 2,052,520</b>

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

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CITY OF HILLSBORO  
Hillsboro, 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, 2017

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Net Change in *Fund Balances* - Total Governmental Funds \$ 192,012

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Issuance of long-term debt decreases net position. This is the amount by which debt repayment exceeded debt proceeds.

Repayment of Special Assessment Bonds	\$ 540,000	
Repayment of State Revolving Fund Loans	<u>107,000</u>	<u>647,000</u>

Change in Net Position of Governmental Activities \$ 839,012

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2017

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation Fund	Total Enterprise Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 240,741	\$ -	\$ 120,880	\$ 70,915	\$ 432,536
Investments	304,281	553,995	50,278	-	908,554
<b>Total Assets</b>	<b>\$ 545,022</b>	<b>\$ 553,995</b>	<b>\$ 171,158</b>	<b>\$ 70,915</b>	<b>\$ 1,341,090</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Benefits Payable	\$ -	\$ 215	\$ -	\$ -	\$ 215
Bonds Payable	180,000	-	-	-	180,000
<b>Total Current Liabilities</b>	<b>\$ 180,000</b>	<b>\$ 215</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 180,215</b>
<b>Noncurrent Liabilities:</b>					
Bonds Payable	\$ 2,360,000	\$ -	\$ -	\$ -	\$ 2,360,000
<b>Total Liabilities</b>	<b>\$ 2,540,000</b>	<b>\$ 215</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,540,215</b>
<b>NET POSITION</b>					
Unrestricted	\$ (1,994,978)	\$ 553,780	\$ 171,158	\$ 70,915	\$ (1,199,125)
<b>Total Net Position</b>	<b>\$ (1,994,978)</b>	<b>\$ 553,780</b>	<b>\$ 171,158</b>	<b>\$ 70,915</b>	<b>\$ (1,199,125)</b>

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS

For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds				
	Water Fund	Electric Funds	Sewer Fund	Sanitation Fund	Total Enterprise Funds
<u>Operating Revenues:</u>					
Charges for Sales and Services	\$ 601,349	\$ 2,272,440	\$ 115,329	\$ 230,515	\$ 3,219,633
<u>Operating Expenses:</u>					
Salaries and Benefits	\$ 115,789	\$ 110,892	\$ 30,602	\$ -	\$ 257,283
Professional Services (Legal, Engineering, etc)	21,206		3,483	209,600	234,289
Maintenance & Supplies	120,927	119,010	48,840	3,454	292,231
Recycling Costs	-	-	-	12,960	12,960
Raw Water Costs	57,223	-	-	-	57,223
Purchased Power Costs	-	1,787,469	-	-	1,787,469
Machinery and Equipment	6,012	6,012	6,012	1,168	19,204
Miscellaneous	7,333	58,931	7,411	320	73,995
Total Operating Disbursements	\$ 328,490	\$ 2,082,314	\$ 96,348	\$ 227,502	\$ 2,734,654
Operating Income (Loss)	\$ 272,859	\$ 190,126	\$ 18,981	\$ 3,013	\$ 484,979
<u>Nonoperating Revenues (Expenses):</u>					
Interest on Investments	\$ 556	\$ 1,063	\$ 134	\$ -	\$ 1,753
Miscellaneous Receipts	29,471	34,502	4,750	3,699	72,422
Retirement of Debt - Interest	(44,575)	-	-	-	(44,575)
Retirement of Debt - Fees	(13,575)	-	-	-	(13,575)
Total Nonoperating Revenues (Expenses)	\$ (28,123)	\$ 35,565	\$ 4,884	\$ 3,699	\$ 16,025
Income Before Transfers	\$ 244,736	\$ 225,691	\$ 23,865	\$ 6,712	\$ 501,004
Transfers Out	\$ (30,000)	\$ (280,000)	\$ (5,000)	\$ -	\$ (315,000)
Total Transfers	\$ (30,000)	\$ (280,000)	\$ (5,000)	\$ -	\$ (315,000)
Change in Net Position	\$ 214,736	\$ (54,309)	\$ 18,865	\$ 6,712	\$ 186,004
Total Net Position - January 1	\$ (2,209,714)	\$ 608,089	\$ 152,293	\$ 64,203	\$ (1,385,129)
Total Net Position - December 31	\$ (1,994,978)	\$ 553,780	\$ 171,158	\$ 70,915	\$ (1,199,125)

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds				
	Water Funds	Electric Funds	Sewer Funds	Sanitation Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>					
Receipts from Customers and Users	\$ 601,349	\$ 2,272,440	\$ 115,329	\$ 230,515	\$ 3,219,633
Payments to Suppliers	(212,701)	(1,971,422)	(65,746)	(227,502)	(2,477,371)
Payments to Employees	(115,789)	(110,892)	(30,602)	-	(257,283)
Net Cash Provided (Used) by Operating Activities	<u>\$ 272,859</u>	<u>\$ 190,126</u>	<u>\$ 18,981</u>	<u>\$ 3,013</u>	<u>\$ 484,979</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Miscellaneous Revenue (Expense)	\$ 29,471	\$ 34,502	\$ 4,750	\$ 3,699	\$ 72,422
Cash Overdraft Position Assumed to be Financed	-	123,425	-	-	123,425
Transfers to Other Funds	(30,000)	(280,000)	(5,000)	-	(315,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (529)</u>	<u>\$ (122,073)</u>	<u>\$ (250)</u>	<u>\$ 3,699</u>	<u>\$ (119,153)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Principal Paid on Capital Debt	\$ (175,000)	\$ -	\$ -	\$ -	\$ (175,000)
Interest & Fees Paid on Capital Debt	(58,150)	-	-	-	(58,150)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (233,150)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (233,150)</u>
<u>Cash Flows from Investing Activities:</u>					
Purchases, Sales & Maturities of Investments	\$ (361)	\$ (89,771)	\$ (17)	\$ -	\$ (90,149)
Interest Income	556	1,063	134	-	1,753
Net Cash Provided (Used) by Investing Activities	<u>\$ 195</u>	<u>\$ (88,708)</u>	<u>\$ 117</u>	<u>\$ -</u>	<u>\$ (88,396)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 39,375</u>	<u>\$ (20,655)</u>	<u>\$ 18,848</u>	<u>\$ 6,712</u>	<u>\$ 44,280</u>
Cash and Cash Equivalents, January 1	<u>\$ 201,366</u>	<u>\$ 20,655</u>	<u>\$ 102,032</u>	<u>\$ 64,203</u>	<u>\$ 388,256</u>
Cash and Cash Equivalents, December 31	<u>\$ 240,741</u>	<u>\$ -</u>	<u>\$ 120,880</u>	<u>\$ 70,915</u>	<u>\$ 432,536</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	<u>\$ 272,859</u>	<u>\$ 190,126</u>	<u>\$ 18,981</u>	<u>\$ 3,013</u>	<u>\$ 484,979</u>

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

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CITY OF HILLSBORO  
Hillsboro, North Dakota

STATEMENT OF FIDUCIARY ASSETS & LIABILITIES  
AGENCY FUNDS  
December 31, 2017

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	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	<u>\$ 58</u>
<u>LIABILITIES:</u>	
Due to other entities	<u>\$ 58</u>

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

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CITY OF HILLSBORO  
Hillsboro, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

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

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

**A. Financial Reporting Entity**

The accompanying financial statements present the activities of the City of Hillsboro. 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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Hillsboro 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 of Hillsboro.

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

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the City of Hillsboro. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City's funds including its blended component units. 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.

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

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

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

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

The city reports the following major enterprise funds:

*Water Funds.* This fund is used to account for customer receipts and payments for water fees and construction costs of various water projects.

*Electric Funds.* This fund is used to account for customer receipts and payments for electric fees, as well as the payment of long-term debt principal, interest, and related costs for electrical purposes.

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

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

### **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 items a) and 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 funds primarily utilize a "current financial resources measurement focus" within the confines of the modified cash basis of accounting, except that long term debt is reported. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows resulting from cash transactions. Assets and liabilities are reported for cash transactions and also long-term debt (current and noncurrent) associated with those activities are reported. Proprietary fund equity is classified as net position.
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Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, and business-type 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 in the government-wide statements, and proprietary fund statements. This basis is a comprehensive 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.

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.

**D. Cash, Cash Equivalents and Investments**

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of highly liquid investments with an original maturity of three months or less (money markets). Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

The investments of the city at December 31, 2017 consist of certificates of deposit stated at cost with maturities in excess of three months.

**E. Fund Balances / Net Position**

**Fund Balance**

Fund Balance Spending Policy

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

Major Special Revenue Fund Purposes & Revenue Sources

Purposes and major revenue sources of the major special revenue funds (city sales tax fund, and highway tax fund) are disclosed in more detail in Note 1B in the discussion of major funds.

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

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

City of Hillsboro had restricted, committed, and unassigned fund balances reported in the balance sheet at December 31, 2017.

Restricted Fund Balances – consist of the following items at December 31, 2017

Restricted fund balances are shown by primary function on the balance sheet for debt service, public works, sales tax/economic development, capital improvements, emergency, and general government (reported in the other governmental funds). Restricted fund balances are restricted by enabling legislation (primarily state law for various tax levies) and by outside 3<sup>rd</sup> parties (State & Federal governments for various grants & reimbursements and bond indentures).

Special Revenue Funds – Restricted & Committed Fund Balances

- (a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:
  - Restricted tax levies – includes fund balances for various tax levies other than the general fund.
  - Restricted grants/reimbursements – primarily includes disaster type grants in various special revenue funds, and other grant funds.
- (b) Committed fund balances (special revenue funds) – committed by governing board city council action reported in the armory operations and CDLF wholesale food funds.

**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.

Net position is shown in two primary categories (restricted and unrestricted), outlined in further detail as follows:

Restrictions of net position shown in the statement of net position are due to restricted tax levies, restricted Federal & State grants/reimbursements, and restricted amounts for unspent bond proceeds reported in debt service and capital projects funds. Additionally, restricted net position is shown in the statement of net position by primary function as fund balances are shown in the balance sheet, and is restricted for debt service, public works, economic/job development, emergency, and general government.

Unrestricted net position consists of activity primarily related to the general fund and negative capital projects fund amounts at year-end. The unrestricted net position is available to meet the city's ongoing obligations

#### **F. Interfund Transactions**

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

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

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

<b>NOTE 2: DEPOSITS AND INVESTMENTS</b>
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In accordance with North Dakota Statutes, the City of Hillsboro maintains deposits and investments at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

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

At year ended December 31, 2017, the city's carrying amount of deposits was \$3,210,113 and the bank balances totaled \$3,473,050. Of the bank balances, \$963,885 was covered by Federal Depository Insurance. The remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name, except for \$9,327 at Dakota Heritage Bank, which was not collateralized with securities.

#### **Credit Risk:**

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

- (a) 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.
  - (b) 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.
  - (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
  - (d) Obligations of the state.
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**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

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Investments:

As of December 31, 2017, the city held certificates of deposit with maturities in excess of 3 months in the amount of \$300,000, respectively, which are all considered investments.

Interest Rate Risk:

The city doesn't have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

Concentration of Credit Risk:

The city does not have a limit on the amount they 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: DUE TO / FROM OTHER FUNDS**

The composition of due to and due from other funds as of December 31, 2017 are as follows:

	<b>Due To</b>	<b>Due From</b>
<u>Major Fund</u>		
General Fund	\$ -	\$ 14,829
<u>Nonmajor Funds</u>		
Emergency	9,759	-
Cemetery	2,266	-
Recreation District	2,804	-
<b>Total</b>	<b>\$ 14,829</b>	<b>\$ 14,829</b>

The composition of due to and due from other funds is related to negative cash fund balances in the social security fund and the recreation district fund covered by the general fund.

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

**NOTE 5: TRANSFERS**

The following is a summary of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2017:

Fund	Transfers In	Transfers Out
<b>Governmental Funds</b>		
<u>Major Funds</u>		
General Fund	\$ 170,110	\$ 56,694
Highway Tax/Streets	70,000	5,000
City Sales Tax Fund	-	149,000
Capital Project Funds	170,000	-
Debt Service Funds	35,000	-
<u>Nonmajor Funds</u>		
Social Security		
City Share of Specials	56,694	110
Cemetery	4,000	-
Armory Operations	20,000	-
<b>Business-Type Funds</b>		
<u>Major Funds</u>		
Water Funds	-	30,000
Electric Funds	-	280,000
Sewer Funds	-	5,000
<b>Total Transfers</b>	<b>\$ 525,804</b>	<b>\$ 525,804</b>

**NOTE 6: LONG-TERM LIABILITIES**

During the years ended December 31, 2017, the following changes occurred in long-term liabilities of the city:

**Governmental Activities**

Governmental Activities	Balance Jan. 1	Increases	Decreases	Balance Dec. 31	Due Within One Year
Special Assessment Bonds	\$ 3,420,000	\$ -	\$ 540,000	\$ 2,880,000	\$ 535,000
Revolving Loan Payable	750,000	-	107,000	643,000	109,000
<b>Total Governmental Activities</b>	<b>\$ 4,170,000</b>	<b>\$ -</b>	<b>\$ 647,000</b>	<b>\$ 3,523,000</b>	<b>\$ 644,000</b>

**Special Assessment Bonds**

\$550,000 Special Assessment Bonds of 2015 due in annual installments of \$60,000 to \$65,000 through May 1, 2024; interest at 1.5% to 2.15%.	\$ 435,000
\$605,000 Special Assessment Bonds of 2015 due in annual installments of \$85,000 to \$90,000 through May 2019; interest at 1.5%.	175,000
\$3,075,000 Refunding Improvement Bonds of 2015 due in annual installments of \$335,000 to \$345,000 through May 2022; interest at 1.35% to 2.1%	1,695,000
\$735,000 Refunding Improvement bonds of 2015-B due in annual installments of \$45,000 to \$60,000 to May 2028 with interest of 1.0% to 2.75%.	<u>575,000</u>
<b>Total Special Assessment Bonds</b>	<u><u>\$ 2,880,000</u></u>

**CITY OF HILLSBORO**

Notes to the Financial Statements – Continued

State Revolving Fund Loans

\$1,150,563 Drinking Water Revolving Improvement Bonds of 2007 due in annual installments of \$89,000 to \$95,000 through September 2021; interest at 2.5%.	\$ 368,000
\$127,489 Drawdown for the wastewater treatment project, issued in 2010 due in annual installments of \$5,000 to \$10,000 interest at 2.5% with a .5% administrative fee.	85,000
\$299,413 Drawdown for the water treatment project, issued in 2011 due in annual installments of \$15,000 to \$20,000 interest at 2.5% with a .5% administrative fee.	<u>190,000</u>
Total State Revolving Fund Loans	<u>\$ 643,000</u>
Total Governmental Activities	<u>\$ 3,523,000</u>

Special assessment bond and Drinking Water Improvement Bonds of 2007 debt service requirements to maturity are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending December 31</b>	<b>Special Assess. Payable</b>		<b>SRF Loan Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 535,000	\$ 49,064	\$ 109,000	\$ 16,075
2018	535,000	41,275	111,000	13,350
2019	450,000	33,278	113,000	10,575
2020	445,000	25,075	115,000	7,750
2021	450,000	15,981	20,000	4,875
2022 - 2026	405,000	29,775	120,000	15,125
2027 - 2031	60,000	825	55,000	3,375
Totals	<u>\$ 2,880,000</u>	<u>\$ 195,273</u>	<u>\$ 643,000</u>	<u>\$ 71,125</u>

Business-Type Activities

<b>Business-Type Activities</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
<u>Water Fund</u>					
Revenue Bonds	\$ 2,715,000	\$ -	\$ 175,000	\$ 2,540,000	\$ 180,000

Revenue Bonds

The city issues bonds where the city pledges income derived from the operations to pay debt service. The proceeds of the bonds are used to finance various capital improvement projects.

\$1,310,679 Drawdown for the Water Treatment Plant, issued in 2011 due in annual instalments of \$55,000 to \$62,000, interest at .5% with a .5% administrative fee.	\$ 700,000
\$2,609,722 Drawdown for the Water Treatment Plant, issued in 2015 due in annual installments of \$125,000 to \$170,000, interest at 2.0% with a .5% administrative fee.	<u>1,840,000</u>
Total Business-Type Activities	<u>\$ 2,540,000</u>

**CITY OF HILLSBORO**

## Notes to the Financial Statements – Continued

Debt service requirements to maturity are as follows:

<b>BUSINESS-TYPE ACTIVITIES</b>		
<b>Year Ending December 31</b>	<b>Water Fund</b>	
	<b>Principal</b>	<b>Interest</b>
2018	\$ 180,000	\$ 45,500
2019	181,000	42,625
2020	186,000	39,725
2021	186,000	36,725
2022	191,000	33,725
2023 - 2027	1,028,000	120,575
2028 - 2032	588,000	34,300
Totals	\$ 2,540,000	\$ 353,175

**NOTE 7: PENSION PLAN**

The City of Hillsboro provides a retirement plan for city employees. The profit-sharing plan is a 401a defined contribution plan in which the city contributes up to 8% of gross salaries for each eligible employee. An employee's contribution can be any amount less than or equal to the amount allowed by the Federal Government. Contributions are determined on base salary and exclude any overtime or bonuses earned by employees. The plan uses the hour of service method. To initially be eligible for the plan, the employee must complete one year of service and at least 21 years old. Additionally, the employee must be credited with 1,000 hours of service in the twelve-month period beginning with the first day of work and ending on the anniversary date of the first day of work. An employee must have 1,000 hours of service in any plan year to remain eligible. Up to 501 hours of leave in any plan year may be counted toward hours of service. A break in service is considered when the employee is not credited with or paid for at least 500 hours of service. Once eligibility requirements are met for plan participation, an employee begins actual participation in the plan on the first day of the month coinciding with or next following the date the requirements were met. The employee is subject to a vesting schedule based on years of service. A deduction is made monthly and forwarded to the plan account, which is maintained by Bell Bank. Upon termination of employment, the employee will receive his or her vested portion of the contribution. The City's share of pension costs for the years ended December 31, 2017, 2016 and 2015 were \$32,346, \$31,199, and \$25,462, respectively.

**NOTE 8: CONDUIT DEBT**Community Development Block Grants

From time to time, the city has obtained Community Development Block Grants (CBDG) to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The grants are secured by property financed and are payable solely from the payments received on the underlying mortgage grants. Upon repayment of the grants, ownership of the acquired facilities transfers to the private-sector entity served by the grant. Neither the city, the State, nor any political subdivision thereof is obligated in any manner for repayment of the grants. Accordingly, the grants are not reported as liabilities in the accompanying financial statements.

As of December 31, 2017, there were two Community Development Block Grants outstanding, with an aggregate principal amount payable of \$162,169.

**NOTE 9: RISK MANAGEMENT**

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

**CITY OF HILLSBORO**

## Notes to the Financial Statements – Continued

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), 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 NDRF for its general liability, auto, and public assets insurance coverage. The coverage by NDRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and \$1,406,782 for public assets coverage.

The City of Hillsboro 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 two million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$2,000,000 for the city 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. The City provides health insurance coverage to all full time employees.

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

**NOTE 10: FUND DEFICITS**

The following funds were in a deficit position at December 31, 2017:

<b>Fund Name</b>	<b>Balance</b>
<b>Governmental Funds</b>	
<u>Debt Service Fund:</u>	
Prairieview Debt Service	\$ (239,247)
<u>Nonmajor Funds:</u>	
Emergency	(3,184)
Cemetery	(2,266)
Recreation District	(2,804)

CITY OF HILLSBORO  
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
GENERAL FUND

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 230,200	\$ 230,200	\$ 235,371	\$ 5,171
Licenses, Permits and Fees	48,760	48,760	44,953	(3,807)
Intergovernmental	125,225	114,970	111,862	(3,108)
Fines, Forfeitures and Penalties	150	150	-	(150)
Interest	1,000	1,000	1,178	178
Miscellaneous	34,000	24,000	25,606	1,606
<b>Total Revenues</b>	<b>\$ 439,335</b>	<b>\$ 419,080</b>	<b>\$ 418,970</b>	<b>\$ (110)</b>
<u>Expenditures:</u>				
Current:				
General Government	\$ 285,190	\$ 239,919	\$ 192,451	\$ 47,468
Public Safety	161,000	161,000	126,032	34,968
Culture and Recreation	79,100	79,100	84,304	(5,204)
Other	10,000	10,000	30,538	(20,538)
<b>Total Expenditures</b>	<b>\$ 535,290</b>	<b>\$ 490,019</b>	<b>\$ 433,325</b>	<b>\$ 56,694</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (95,955)</b>	<b>\$ (70,939)</b>	<b>\$ (14,355)</b>	<b>\$ 56,584</b>
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 170,000	\$ 170,000	\$ 170,110	\$ 110
Transfers Out	-	-	(56,694)	(56,694)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 170,000</b>	<b>\$ 170,000</b>	<b>\$ 113,416</b>	<b>\$ (56,584)</b>
<b>Net Change in Fund Balances</b>	<b>\$ 74,045</b>	<b>\$ 99,061</b>	<b>\$ 99,061</b>	<b>\$ -</b>
<b>Fund Balances - January 1</b>	<b>\$ 134,501</b>	<b>\$ 134,501</b>	<b>\$ 134,501</b>	<b>\$ -</b>
<b>Fund Balances - December 31</b>	<b>\$ 208,546</b>	<b>\$ 233,562</b>	<b>\$ 233,562</b>	<b>\$ -</b>

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

CITY OF HILLSBORO  
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
HIGHWAY TAX FUND  
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 119,500	\$ 104,260	\$ 96,259	\$ (8,001)
Miscellaneous Revenue	500	500	700	200
<b>Total Revenues</b>	<b>\$ 120,000</b>	<b>\$ 104,760</b>	<b>\$ 96,959</b>	<b>\$ (7,801)</b>
<u>Expenditures:</u>				
Current:				
Public Works	\$ 184,100	\$ 195,072	\$ 195,072	\$ -
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (64,100)</b>	<b>\$ (90,312)</b>	<b>\$ (98,113)</b>	<b>\$ (7,801)</b>
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Transfers Out	(5,000)	(5,000)	(5,000)	-
<b>Total Other Financing Sources and Uses</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 900</b>	<b>\$ (25,312)</b>	<b>\$ (33,113)</b>	<b>\$ (7,801)</b>
Fund Balances - January 1	\$ 78,493	\$ 78,493	\$ 78,493	\$ -
<b>Fund Balances - December 31</b>	<b>\$ 79,393</b>	<b>\$ 53,181</b>	<b>\$ 45,380</b>	<b>\$ (7,801)</b>

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

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CITY OF HILLSBORO  
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
SALES TAX FUND  
For the Year Ended December 31, 2017

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	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 370,000	\$ 186,400	\$ 186,505	\$ 105
Interest income	400	400	295	(105)
Total Revenues	<u>\$ 370,400</u>	<u>\$ 186,800</u>	<u>\$ 186,800</u>	<u>\$ -</u>
<u>Expenditures:</u>				
Current:				
Economic Development	<u>\$ 497,900</u>	<u>\$ 247,528</u>	<u>\$ 62,628</u>	<u>\$ 184,900</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (127,500)</u>	<u>\$ (60,728)</u>	<u>\$ 124,172</u>	<u>\$ 184,900</u>
<u>Other Financing Sources (Uses):</u>				
Transfers out	<u>\$ (187,000)</u>	<u>\$ (187,000)</u>	<u>\$ (149,000)</u>	<u>\$ 38,000</u>
Net Change in Fund Balances	<u>\$ (314,500)</u>	<u>\$ (247,728)</u>	<u>\$ (24,828)</u>	<u>\$ 222,900</u>
Fund Balances - January 1	<u>\$ 530,784</u>	<u>\$ 530,784</u>	<u>\$ 530,784</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 216,284</u>	<u>\$ 283,056</u>	<u>\$ 505,956</u>	<u>\$ 222,900</u>

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

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CITY OF HILLSBORO  
Hillsboro, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2017

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NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The governing board adopts an annual budget on a basis consistent with GAAP, 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 City commission adopts an “appropriated budget” on the modified cash basis of accounting.
- 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 7<sup>th</sup> 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 7<sup>th</sup> in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7<sup>th</sup>, 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).

**CITY OF HILLSBORO**

Notes to the Required Supplementary Information – Continued

- 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 10<sup>th</sup>, 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 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).

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

Budget Amendments

The board of county commissioners amended the county budget for 2017 as follows:

	<b>REVENUES AND TRANSFERS IN</b>		
	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds:</b>			
<b>Major Funds</b>			
General Fund	\$ 609,335	\$ (20,255)	\$ 589,080
Highway Tax	190,000	(15,240)	174,760
Sales Tax	370,400	(183,600)	186,800
Debt Service Funds	925,432	(7,504)	917,928
Capital Project Funds	170,040	500	170,540
<b>Nonmajor Funds</b>			
Recreation District	11,200	782	11,982
Cemetery	10,950	(1,788)	9,162
Armory	12,000	(4,850)	7,150

	<b>EXPENDITURES AND TRANSFERS OUT</b>		
	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
<b>Governmental Funds:</b>			
<b>Major Funds</b>			
General Fund	\$ 535,290	\$ (45,271)	\$ 490,019
Highway Tax	189,100	10,972	200,072
Sales Tax	684,900	(250,372)	434,528
Debt Service Funds	949,542	18,882	968,424
Capital Projects Funds	159,575	(53,627)	105,948
<b>Nonmajor Funds</b>			
City Share of Specials	-	77,783	77,783
Emergency	5,000	31,903	36,903
Recreation District	11,000	(1,315)	9,685
Mosquito Control	18,800	(10,002)	8,798
Cemetery	14,950	1,437	16,387
Armory	30,000	2,154	32,154
MSCC	2,000	(1,950)	50

CITY OF HILLSBORO  
Hillsboro, North Dakota

SCHEDULE OF FUND ACTIVITY  
ARISING FROM CASH TRANSACTIONS-Cash Amounts by Fund  
For the Year Ended December 31, 2017

	Balance 1-1-17	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-17
<b>Major Governmental Funds:</b>						
General Fund	\$ 134,500.80	\$ 418,969.45	\$ 170,110.30	\$ 56,693.59	\$ 433,325.32	\$ 233,561.64
<b>Special Revenue Funds</b>						
Highway Tax/Streets	\$ 78,493.06	\$ 96,959.36	\$ 70,000.00	\$ 5,000.00	\$ 195,072.41	\$ 45,380.01
City Sales Tax Fund	530,783.92	186,800.42	-	149,000.00	62,628.03	505,956.31
Total Major Special Revenue Funds	\$ 609,276.98	\$ 283,759.78	\$ 70,000.00	\$ 154,000.00	\$ 257,700.44	\$ 551,336.32
<b>Capital Project Funds</b>						
Capital Projects	\$ 49,505.88	\$ 36.72	\$ -	\$ -	\$ 19,871.00	\$ 29,671.60
Equipment	41,500.00	500.00	20,000.00	-	27,000.00	35,000.00
AMR Meter Replacement	20,087.94	-	150,000.00	-	50,908.26	119,179.68
BNSF Caboose Restoration	4,427.08	-	-	-	816.85	3,610.23
Total Major Capital Project Funds	\$ 115,520.90	\$ 536.72	\$ 170,000.00	\$ -	\$ 98,596.11	\$ 187,461.51
<b>Debt Service Funds</b>						
Riverbend Debt Service	\$ 132,169.92	\$ 81,632.06	\$ -	\$ -	\$ 94,455.00	\$ 119,346.98
Project 2006 Water Main	71,251.10	85,727.94	-	-	100,432.50	56,546.54
Highway 200 Debt Service	298,453.19	116,167.19	-	-	98,625.00	315,995.38
2007 Streets Debt Service	360,253.36	251,737.47	-	-	267,429.41	344,561.42
Prairieview Debt Service	(233,820.01)	162,663.22	-	-	168,090.59	(239,247.38)
Kingman Sewer	106,600.39	10,000.00	35,000.00	-	54,383.50	97,216.89
City Debt Retirement	111,292.80	186,505.11	-	-	185,000.00	112,797.91
Total Major Debt Service Funds	\$ 846,200.75	\$ 894,432.99	\$ 35,000.00	\$ -	\$ 968,416.00	\$ 807,217.74
Total Major Governmental Funds	\$ 1,705,499.43	\$ 1,597,698.94	\$ 445,110.30	\$ 210,693.59	\$ 1,758,037.87	\$ 1,779,577.21
<b>Nonmajor Governmental Funds:</b>						
<b>Special Revenue Funds:</b>						
City's Share of Specials	\$ 20,940.56	\$ 239.16	\$ 56,693.59	\$ 110.30	\$ 77,763.01	\$ -
Emergency	33,709.74	9.92	-	-	36,903.18	(3,183.52)
Cemetery	958.98	9,162.28	4,000.00	-	16,387.37	(2,266.11)
Armory Operations	5,627.44	7,150.00	20,000.00	-	32,154.19	623.25
Main Street Community Center	92.13	1,575.00	-	-	50.00	1,617.13
CDLF - Wholesale Foods	2,720.67	18,987.48	-	-	18,683.82	3,024.33
Mosquito Control	94,495.66	5,234.49	-	-	8,798.49	90,931.66
Recreation District	(3,537.36)	10,418.24	-	-	9,685.00	(2,804.12)
Total Special Revenue Funds	\$ 155,007.82	\$ 52,776.57	\$ 80,693.59	\$ 110.30	\$ 200,425.06	\$ 87,942.62
Total Nonmajor Gov't Funds	\$ 155,007.82	\$ 52,776.57	\$ 80,693.59	\$ 110.30	\$ 200,425.06	\$ 87,942.62
Total Governmental Funds	\$ 1,860,507.25	\$ 1,650,475.51	\$ 525,803.89	\$ 210,803.89	\$ 1,958,462.93	\$ 1,867,519.83
<b>Major Enterprise Funds:</b>						
Water Fund	\$ 505,286.03	\$ 695,457.68	\$ -	\$ 30,000.00	\$ 625,721.96	\$ 545,021.75
<b>Electric Funds</b>						
Generation Project - Debt	\$ 134,608.92	\$ 133,695.44	\$ -	\$ 100,000.00	\$ -	\$ 168,304.36
Electric Department	431,444.06	2,169,970.76	-	180,000.00	2,077,431.34	343,983.48
Meter Deposits	42,036.23	4,338.89	-	-	4,882.89	41,492.23
Total Electric Funds	\$ 608,089.21	\$ 2,308,005.09	\$ -	\$ 280,000.00	\$ 2,082,314.23	\$ 553,780.07
Sewer Fund	\$ 152,293.04	\$ 120,213.04	\$ -	\$ 5,000.00	\$ 96,347.77	\$ 171,158.31
Sanitation Fund	64,202.50	234,213.36	-	-	227,500.99	70,914.87
Total Major Enterprise Funds	\$ 1,329,870.78	\$ 3,357,889.17	\$ -	\$ 315,000.00	\$ 3,031,884.95	\$ 1,340,875.00
<b>Agency Fund:</b>						
Airport	\$ -	\$ 10,548.68	\$ -	\$ -	\$ 10,490.37	\$ 58.31
Total Reporting Entity	\$ 3,190,378.03	\$ 5,018,913.36	\$ 525,803.89	\$ 525,803.89	\$ 5,000,838.25	\$ 3,208,453.14



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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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**

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Independent Auditor's Report

City Commission  
City of Hillsboro  
Hillsboro, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Hillsboro's basic financial statements, and have issued our report thereon dated May 2, 2018.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be material weaknesses [2017-001 and 2017-002].

## **CITY OF HILLSBORO**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hillsboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

### **The City of Hillsboro's Response to Findings**

The City of Hillsboro's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The City of Hillsboro's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

/s/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
May 2, 2018

CITY OF HILLSBORO  
Hillsboro, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2017

**Section I - Summary of Auditor's Results**

Financial Statements

Type of Auditor's Reports Issued?	
Governmental Activities	Adverse
Business-Type Activities	Adverse
Major Governmental Funds	Unmodified on modified cash basis
Major Business-Type Funds	Adverse
Aggregate Remaining Fund Information	Unmodified on modified cash basis

Internal control over financial reporting

Material weaknesses identified	<u> X </u>	Yes	<u>     </u>	None noted
Significant deficiencies identified not considered to be material weaknesses?	<u>     </u>	Yes	<u> X </u>	None noted
Noncompliance material to financial statements noted?	<u>     </u>	Yes	<u> X </u>	None noted

**Section II - Financial Statement Findings**

**2017-001 - CAPITAL ASSET RECORDS**

**Condition**

The City of Hillsboro, North Dakota, does not maintain complete capital asset records for the governmental activities, the business-type activities and the major business-type funds.

**Criteria**

Accounting principles generally accepted in the United States of America require the financial statements include capital assets for governmental activities, business-type activities and major business-type funds, net of accumulated depreciation.

**Effect**

The omission of capital assets from the financial statements results in an incomplete presentation of the City of Hillsboro's financial statements and adverse opinions on the City's financial statements for governmental activities, business-type activities and major business-type funds.

**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.

**Client Response**

We agree with this recommendation. However, the board does not concur that it is cost effective to establish capital asset records at this time according to Auditor recommendation.

**CITY OF HILLSBORO**

Schedule of Findings and Responses – Continued

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**2017-002 - SEGREGATION OF DUTIES**

**Condition**

The City of Hillsboro, North Dakota has one city auditor and one deputy auditor responsible for accounting functions including maintaining accounting records, reconciling accounts and paying bills.

**Criteria**

Proper internal control over financial reporting and custody of assets dictates that there should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the 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. However, duties should be segregated to the extent possible within the Auditor's office.

**Client Response**

I agree with this finding. It is not feasible at this time due to the number of personnel in the office and cost considerations to add any additional staff.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of Local Government Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2220



City of Hillsboro  
Hillsboro, North Dakota

# Management's Letter

For the Year Ended December 31, 2017

**JOSHUA C. GALLION**  
**STATE AUDITOR**

Office of the State Auditor  
Division of Local Government

**STATE AUDITOR**

JOSHUA C. GALLION  
Phone (701) 328-2241



Local Government Division:

FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**

STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

City Commission  
City of Hillsboro  
Hillsboro, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, North Dakota, for the years ended December 31, 2017 which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 2, 2018. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA & GOVERNMENT AUDITING STANDARDS**

As stated in our engagement letter dated April 5, 2018, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether the City of Hillsboro’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

**SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hillsboro are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the financial statements, as the City of Hillsboro does evaluate useful lives of capital assets.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

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

<b>AUDIT ADJUSTMENTS</b>		
	<u>Governmental</u>	
<u>Debt Service Fund:</u>		
Cash	185,000	
Expenditures		185,000

**DISAGREEMENTS WITH MANAGEMENT**

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

**MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated May 2, 2018.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

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

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**OTHER AUDIT FINDINGS OR ISSUES**

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

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

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

/s/  
Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
May 2, 2018