



Financial Statements
December 31, 2019 and 2018
City of Horace, North Dakota

Elected and Appointed Officials (Unaudited)	1
Independent Auditor’s Report	2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position.....	6
Statement of Activities.....	8
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	10
Reconciliation of the Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	16
Proprietary Funds	
Statement of Net Position.....	18
Statement of Revenues, Expenses, and Changes in Net Position	20
Statement of Cash Flows.....	22
Notes to Financial Statements	24
Required Supplementary Information	
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	45
Highway Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	47
Sales Tax Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	48
Additional Reports	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Schedule of Findings	51

City of Horace, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2019

<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Kory Peterson	Mayor	6/30/2024
David Fenelon	City Commissioner	6/30/2024
Chelsey Johnson	City Commissioner	6/30/2022
John Koerselman	City Commissioner	6/30/2022
Bryan Schmidt	City Commissioner	6/30/2024
<u>Administration</u>		
Brent Hople	City Administrator	
Becky Streitz	Finance Director	



Independent Auditor's Report

The City Council
City of Horace, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Horace, North Dakota (the City), as of and for the years ended December 31, 2019 and 2018, 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 audits. Except as explained in the "Basis for Disclaimer of Opinion" paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 on the governmental activities, business-type activities, and each major fund's Statements of Net Position and Balance Sheets, as applicable, as of December 31, 2019 and 2018, and the Statement of Activities, Statement of Revenues, Expenditures, and Changes in Fund Balances, Statement of Revenues, Expenditures and Changes in Net Position, and Statement of Cash Flows, as applicable, for the year ended December 31, 2019.

Basis for Disclaimer of Opinion on 2018 Operations and Cash Flows

For the governmental activities, business-type activities, and each major fund we were unable to audit the adjustment to change the basis of accounting from modified cash to modified accrual as of January 1, 2018 since that date was prior to our engagement as auditors for the City, and we were unable to satisfy ourselves regarding the necessary adjustments to utility receivables, other accounts receivable, accounts payable, and revenue amounts as of December 31, 2017 that enter into the determination of changes in fund balance, changes in net position, and cash flows, as applicable, for the year ended December 31, 2018.

Disclaimer of Opinion on 2018 Operations and Cash Flows

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions of the governmental activities, the business-type activities, and each major fund on the results of operations and cash flows, where applicable, and for the year ended December 31, 2018. Accordingly, we do not express an opinion on the changes in net position, changes in fund balance and cash flows for the year ended December 31, 2018.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Horace as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 11 to the financial statements, as of January 1, 2018, the City changed from reporting under the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, to the provisions of GASB Statement No. 34, *Basic Financial Statements—And Management's Discussion and Analysis—For State and Local Governments*. In addition, management changed the reporting of certain individual nonmajor funds to being reported within the General Fund in accordance with the guidance in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This has resulted in a restatement of the beginning of year net position and fund balances as of January 1, 2018. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the General Fund Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual for the years ended December 31, 2019 and 2018, Sales Tax Fund Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual for the year ended December 31, 2019, and Highway Fund Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual for the year ended December 31, 2019 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 Boards 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. Although the auditor’s opinion on the basic financial statements is not affected, we did not express an opinion on the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund for the year ended December 31, 2018, from which the General Fund Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual results for the year ended December 31, 2018 was derived.

Management has omitted the management’s discussion and analysis for the years ended December 31, 2019 and 2018, and the budgetary comparison schedules for the Sales Tax and Highway funds for the year ended December 31, 2018, that the accounting principles generally accepted in the United States of America requires 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 opinions on the basic financial statements are not affected by the missing information.

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 listing of elected and appointed officials is presented for purpose of additional analysis and is not a required part of the financial statements.

The listing of elected and appointed officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this listing.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
September 22, 2020

City of Horace, North Dakota
Statement of Net Position
December 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 14,302,136	\$ 170,882	\$ 14,473,018
Receivables			
Accounts	2,376	62,999	65,375
Notes	46,082	-	46,082
Property taxes	11,583	-	11,583
Special assessments	17,945,615	-	17,945,615
Due from other governmental units	240,662	-	240,662
Interfund balances	575,931	(575,931)	-
Capital assets			
Land	1,797,512	-	1,797,512
Construction in progress	23,637,821	-	23,637,821
Infrastructure	6,104,777	5,548,380	11,653,157
Buildings and improvements	279,086	-	279,086
Machinery and equipment	386,256	6,100	392,356
Vehicles	268,972	-	268,972
Less accumulated depreciation	(2,030,390)	(1,085,556)	(3,115,946)
Total assets	<u>63,568,419</u>	<u>4,126,874</u>	<u>67,695,293</u>
Liabilities			
Accounts payable	381,878	9,666	391,544
Retainage payable	888,985	-	888,985
Accrued interest payable	192,964	462	193,426
Other liabilities	39,671	5,082	44,753
Long-term liabilities			
Due within one year	802,227	45,568	847,795
Due in more than one year	39,790,857	52,407	39,843,264
Total liabilities	<u>42,096,582</u>	<u>113,185</u>	<u>42,209,767</u>
Net position			
Net investment in capital assets	938,575	4,370,949	5,309,524
Restricted	29,168,457	-	29,168,457
Unrestricted	(8,635,195)	(357,260)	(8,992,455)
Total net position	<u>\$ 21,471,837</u>	<u>\$ 4,013,689</u>	<u>\$ 25,485,526</u>

City of Horace, North Dakota
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,111,063	\$ 233,652	\$ 5,344,715
Receivables			
Accounts	200	66,914	67,114
Notes	65,512	-	65,512
Property taxes	5,643	-	5,643
Special assessments	14,718,406	-	14,718,406
Due from other governmental units	158,886	-	158,886
Interfund balances	575,931	(575,931)	-
Capital assets			
Land	268,472	-	268,472
Construction in progress	7,715,234	301,707	8,016,941
Infrastructure	5,751,716	5,130,405	10,882,121
Buildings and improvements	279,086	-	279,086
Machinery and equipment	287,769	6,100	293,869
Vehicles	113,494	-	113,494
Less accumulated depreciation	(1,812,805)	(981,531)	(2,794,336)
Total assets	<u>33,238,607</u>	<u>4,181,316</u>	<u>37,419,923</u>
Liabilities			
Accounts payable	445,112	17,888	463,000
Accrued interest payable	95,216	372	95,588
Other liabilities	8,444	6,803	15,247
Long-term liabilities			
Due within one year	605,562	41,857	647,419
Due in more than one year	16,053,247	92,407	16,145,654
Total liabilities	<u>17,207,581</u>	<u>159,327</u>	<u>17,366,908</u>
Net position			
Net investment in capital assets	(257,865)	4,322,417	4,064,552
Restricted	18,096,487	-	18,096,487
Unrestricted	(1,807,596)	(300,428)	(2,108,024)
Total net position	<u>\$ 16,031,026</u>	<u>\$ 4,021,989</u>	<u>\$ 20,053,015</u>

City of Horace, North Dakota
Statement of Activities
Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities						
General government	\$ 1,319,794	\$ 304,375	\$ 1,000,000	\$ (15,419)	\$ -	\$ (15,419)
Public safety	161,596	-	-	(161,596)	-	(161,596)
Public works	116,559	19,679	-	(96,880)	-	(96,880)
Interest on long-term debt	633,813	-	-	(633,813)	-	(633,813)
Total governmental activities	<u>2,231,762</u>	<u>324,054</u>	<u>1,000,000</u>	<u>(907,708)</u>	<u>-</u>	<u>(907,708)</u>
Business-type activities						
Water	213,723	219,915	-	-	6,192	6,192
Sewer facility	184,444	146,673	-	-	(37,771)	(37,771)
Garbage	228,285	221,773	-	-	(6,512)	(6,512)
Total business-type activities	<u>626,452</u>	<u>588,361</u>	<u>-</u>	<u>-</u>	<u>(38,091)</u>	<u>(38,091)</u>
Total Government	<u>\$ 2,858,214</u>	<u>\$ 912,415</u>	<u>\$ 1,000,000</u>	<u>(907,708)</u>	<u>(38,091)</u>	<u>(945,799)</u>
General revenues						
Property taxes				804,665	-	804,665
Special assessments				4,231,104	-	4,231,104
Sales and use tax				658,244	-	658,244
Franchise tax				29,786	-	29,786
State aid				399,310	-	399,310
Unrestricted investment earnings				198,843	-	198,843
Miscellaneous				56,358	-	56,358
Transfers				(29,791)	29,791	-
Total general revenue and transfers				<u>6,348,519</u>	<u>29,791</u>	<u>6,378,310</u>
Change in net position				5,440,811	(8,300)	5,432,511
Net position - beginning				16,031,026	4,021,989	20,053,015
Net position - ending				<u>\$ 21,471,837</u>	<u>\$ 4,013,689</u>	<u>\$ 25,485,526</u>

City of Horace, North Dakota
Statement of Activities
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities						
General government	\$ 1,253,090	\$ 77,040	\$ -	\$ (1,176,050)	\$ -	\$ (1,176,050)
Public safety	169,700	45	-	(169,655)	-	(169,655)
Public works	1,832,618	-	-	(1,832,618)	-	(1,832,618)
Bond issuance costs	76,185	-	-	(76,185)	-	(76,185)
Interest on long-term debt	510,843	-	-	(510,843)	-	(510,843)
Total governmental activities	<u>3,842,436</u>	<u>77,085</u>	<u>-</u>	<u>(3,765,351)</u>	<u>-</u>	<u>(3,765,351)</u>
Business-type activities						
Water	131,588	134,784	483,616	-	486,812	486,812
Sewer facility	140,994	121,858	993,253	-	974,117	974,117
Garbage	234,490	210,318	-	-	(24,172)	(24,172)
Total business-type activities	<u>507,072</u>	<u>466,960</u>	<u>1,476,869</u>	<u>-</u>	<u>1,436,757</u>	<u>1,436,757</u>
Total Government	<u>\$ 4,349,508</u>	<u>\$ 544,045</u>	<u>\$ 1,476,869</u>	<u>(3,765,351)</u>	<u>1,436,757</u>	<u>(2,328,594)</u>
General revenues						
Property taxes				696,009	-	696,009
Special assessments				9,744,841	-	9,744,841
Sales and use tax				388,108	-	388,108
Franchise tax				14,228	-	14,228
State aid				379,435	-	379,435
Unrestricted investment earnings				15,034	-	15,034
Miscellaneous				61,618	-	61,618
Transfers				(29,618)	29,618	-
Total general revenue and transfers				<u>11,269,655</u>	<u>29,618</u>	<u>11,299,273</u>
Change in net position				7,504,304	1,466,375	8,970,679
Net position - beginning, as restated (see Note 11)				<u>8,526,722</u>	<u>2,555,614</u>	<u>11,082,336</u>
Net position - ending				<u>\$ 16,031,026</u>	<u>\$ 4,021,989</u>	<u>\$ 20,053,015</u>

City of Horace, North Dakota

Governmental Funds

Balance Sheet

December 31, 2019

	<u>General</u>	<u>Highway</u>	<u>Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 285,412	\$ 689,417	\$ 1,052,939	\$ 1,201,580	\$ 11,072,788	\$ 14,302,136
Due from other funds	575,931	-	-	-	-	575,931
Receivables						
Accounts	2,376	-	-	-	-	2,376
Notes	46,082	-	-	-	-	46,082
Property taxes	11,583	-	-	-	-	11,583
Special assessments	-	-	-	17,945,615	-	17,945,615
Due from other governmental units	60,990	29,648	150,024	-	-	240,662
Total assets	\$ 982,374	\$ 719,065	\$ 1,202,963	\$ 19,147,195	\$ 11,072,788	\$ 33,124,385
Liabilities, Deferred Inflows of Resources, and Fund Balance						
Liabilities						
Accounts payable	\$ 201,659	\$ 15,417	\$ -	\$ -	\$ 164,802	\$ 381,878
Retainage payable	-	-	2,261	-	886,724	888,985
Other liabilities	36,283	3,388	-	-	-	39,671
Total liabilities	237,942	18,805	2,261	-	1,051,526	1,310,534
Deferred Inflows of Resources						
Unavailable revenue-property taxes	11,583	-	-	-	-	11,583
Unavailable revenue-special assessments	-	-	-	17,101,968	-	17,101,968
Unavailable revenue-notes receivable	46,082	-	-	-	-	46,082
Total deferred inflows of resources	57,665	-	-	17,101,968	-	17,159,633
Fund Balance						
Restricted for						
Public works	53,172	-	-	-	-	53,172
Highway maintenance	-	700,260	-	-	-	700,260
Sales tax	-	-	1,200,702	-	-	1,200,702
Debt service	-	-	-	2,045,227	-	2,045,227
Capital projects	-	-	-	-	10,021,262	10,021,262
Unassigned	633,595	-	-	-	-	633,595
Total fund balance	686,767	700,260	1,200,702	2,045,227	10,021,262	14,654,218
Total liabilities, deferred inflows of resources, and fund balance	\$ 982,374	\$ 719,065	\$ 1,202,963	\$ 19,147,195	\$ 11,072,788	\$ 33,124,385

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

City of Horace, North Dakota
Governmental Funds
Balance Sheet
December 31, 2018

	<u>General</u>	<u>Highway</u>	<u>Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 23,826	\$ 742,007	\$ 565,772	\$ -	\$ 3,779,458	\$ 5,111,063
Due from other funds	672,864	-	-	-	-	672,864
Receivables						
Accounts	200	-	-	-	-	200
Notes	65,512	-	-	-	-	65,512
Property taxes	5,643	-	-	-	-	5,643
Special assessments	-	-	-	14,718,406	-	14,718,406
Due from other governmental units	60,206	30,284	68,396	-	-	158,886
Total assets	<u>\$ 828,251</u>	<u>\$ 772,291</u>	<u>\$ 634,168</u>	<u>\$ 14,718,406</u>	<u>\$ 3,779,458</u>	<u>\$ 20,732,574</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance						
Liabilities						
Accounts payable	\$ 137,148	\$ 3,520	\$ -	\$ -	\$ 304,444	\$ 445,112
Due to other funds	-	-	-	96,933	-	96,933
Other liabilities	8,444	-	-	-	-	8,444
Total liabilities	<u>145,592</u>	<u>3,520</u>	<u>-</u>	<u>96,933</u>	<u>304,444</u>	<u>550,489</u>
Deferred Inflows of Resources						
Unavailable revenue-property taxes	5,643	-	-	-	-	5,643
Unavailable revenue-special assessments	-	-	-	14,276,410	-	14,276,410
Unavailable revenue-notes receivable	65,512	-	-	-	-	65,512
Total deferred inflows of resources	<u>71,155</u>	<u>-</u>	<u>-</u>	<u>14,276,410</u>	<u>-</u>	<u>14,347,565</u>
Fund Balance						
Restricted for						
Public works	53,172	-	-	-	-	53,172
Highway maintenance	-	768,771	-	-	-	768,771
Sales tax	-	-	634,168	-	-	634,168
Debt service	-	-	-	345,063	-	345,063
Capital projects	-	-	-	-	3,475,014	3,475,014
Unassigned	558,332	-	-	-	-	558,332
Total fund balance	<u>611,504</u>	<u>768,771</u>	<u>634,168</u>	<u>345,063</u>	<u>3,475,014</u>	<u>5,834,520</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 828,251</u>	<u>\$ 772,291</u>	<u>\$ 634,168</u>	<u>\$ 14,718,406</u>	<u>\$ 3,779,458</u>	<u>\$ 20,732,574</u>

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

City of Horace, North Dakota
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Position
 December 31, 2019

Total Fund Balances – Governmental Funds	\$ 14,654,218
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	30,444,034
<p>Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are deferred in the funds.</p>	17,159,633
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:</p>	
Refunding improvement bonds	(13,445,795)
Temporary improvement bonds	(24,525,000)
State revolving loans	(2,607,452)
Compensated absences	(14,837)
Accrued interest	(192,964)
	(43,285,988)
Total Net Position – Governmental Activities	\$ 21,471,837

City of Horace, North Dakota
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Position
 December 31, 2018

Total Fund Balances – Governmental Funds	\$ 5,834,520
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,602,968
Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are deferred in the funds.	14,347,565
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:	
Refunding improvement bonds	(13,822,837)
State revolving loans	(2,817,452)
Compensated absences	(18,520)
Accrued interest	(95,216)
	(16,853,025)
Total Net Position – Governmental Activities	\$ 16,031,026

City of Horace, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2019

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Revenues						
General property taxes	\$ 798,725	\$ -	\$ -	\$ -	\$ -	\$ 798,725
Special assessments	-	-	-	1,405,546	-	1,405,546
Licenses and permits	315,341	-	-	-	-	315,341
Intergovernmental revenue	240,082	159,228	-	-	1,000,000	1,399,310
Charges for services	19,680	-	-	-	-	19,680
Loan repayment	20,000	-	-	-	-	20,000
Sales tax	-	-	658,244	-	-	658,244
Investment earnings	77,610	-	-	-	121,233	198,843
Miscellaneous revenue	26,108	-	48,500	-	-	74,608
Total revenues	1,497,546	159,228	706,744	1,405,546	1,121,233	4,890,297
Expenditures						
Current						
General government	1,213,545	-	-	-	-	1,213,545
Public safety	161,596	-	-	-	-	161,596
Public works	-	237,815	-	-	-	237,815
General government - other	27,594	-	-	22,353	-	49,947
Capital outlay	8,476	34,924	140,210	-	17,618,540	17,802,150
Debt service						
Principal	-	-	-	587,042	-	587,042
Interest and fees	-	-	-	513,713	-	513,713
Total expenditures	1,411,211	272,739	140,210	1,123,108	17,618,540	20,565,808
Excess (Deficiency) of Revenues Over (Under) Expenditures	86,335	(113,511)	566,534	282,438	(16,497,307)	(15,675,511)
Other Financing Sources (Uses)						
Bond proceeds	-	-	-	1,234,429	23,290,571	24,525,000
Transfers in	97,648	45,000	-	427,730	128,183	698,561
Transfers out	(108,720)	-	-	(244,433)	(375,199)	(728,352)
Total other financing sources and uses	(11,072)	45,000	-	1,417,726	23,043,555	24,495,209
Net Change in Fund Balance	75,263	(68,511)	566,534	1,700,164	6,546,248	8,819,698
Fund Balance, Beginning	611,504	768,771	634,168	345,063	3,475,014	5,834,520
Fund Balance, Ending	\$ 686,767	\$ 700,260	\$ 1,200,702	\$ 2,045,227	\$ 10,021,262	\$ 14,654,218

City of Horace, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2018

	<u>General</u>	<u>Highway</u>	<u>Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues						
General property taxes	\$ 696,009	\$ -	\$ -	\$ -	\$ -	\$ 696,009
Special assessments	5,487	-	-	832,189	-	837,676
Licenses and permits	92,265	-	-	-	-	92,265
Intergovernmental revenue	221,797	157,638	-	-	-	379,435
Loan repayment	30,000	-	-	-	-	30,000
Fines and forfeitures	45	-	-	-	-	45
Sales tax	-	-	388,108	-	-	388,108
Investment earnings	15,034	-	-	-	-	15,034
Miscellaneous revenue	61,783	-	-	-	-	61,783
Total revenues	<u>1,122,420</u>	<u>157,638</u>	<u>388,108</u>	<u>832,189</u>	<u>-</u>	<u>2,500,355</u>
Expenditures						
Current						
General government	1,247,647	-	-	-	-	1,247,647
Public safety	156,626	-	-	-	-	156,626
Public works	-	254,542	-	-	-	254,542
General government - other	-	-	-	7,956	68,227	76,183
Capital outlay	-	85,243	-	-	3,554,901	3,640,144
Debt service						
Principal	-	-	-	561,925	-	561,925
Interest and fees	-	-	-	415,626	-	415,626
Total expenditures	<u>1,404,273</u>	<u>339,785</u>	<u>-</u>	<u>985,507</u>	<u>3,623,128</u>	<u>6,352,693</u>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	(281,853)	(182,147)	388,108	(153,318)	(3,623,128)	(3,852,338)
Other Financing Sources (Uses)						
Bond proceeds	-	-	-	-	5,320,605	5,320,605
Transfers in	327	-	-	445,357	240,464	686,148
Transfers out	(63,833)	-	-	(32,488)	(619,445)	(715,766)
Total other financing sources and uses	<u>(63,506)</u>	<u>-</u>	<u>-</u>	<u>412,869</u>	<u>4,941,624</u>	<u>5,290,987</u>
Net Change in Fund Balance	(345,359)	(182,147)	388,108	259,551	1,318,496	1,438,649
Fund Balance, Beginning as restated (see Note 11)	<u>956,863</u>	<u>950,918</u>	<u>246,060</u>	<u>85,512</u>	<u>2,156,518</u>	<u>4,395,871</u>
Fund Balance, Ending	<u>\$ 611,504</u>	<u>\$ 768,771</u>	<u>\$ 634,168</u>	<u>\$ 345,063</u>	<u>\$ 3,475,014</u>	<u>\$ 5,834,520</u>

City of Horace, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended December 31, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 8,819,698
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:	
Capital outlay	18,058,653
Depreciation expense	(217,585)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	2,812,068
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used	3,683
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	(97,748)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:	
Bonds issued	(24,525,000)
Bond principal retirement	587,042
Change in Net Position of Governmental Activities	<u>\$ 5,440,811</u>

City of Horace, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 1,438,649
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:	
Capital outlay	3,726,522
Contribution of capital assets to proprietary fund	(1,476,869)
Depreciation expense	(187,585)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	8,876,003
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used	(18,520)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	(95,216)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:	
Debt issued	(5,320,605)
Principal retirement	561,925
Change in Net Position of Governmental Activities	<u>\$ 7,504,304</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Net Position
December 31, 2019

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 153,441	\$ -	\$ 17,441	\$ 170,882
Due from other funds	919,529	-	-	919,529
Accounts receivable	21,858	12,833	28,308	62,999
Total current assets	<u>1,094,828</u>	<u>12,833</u>	<u>45,749</u>	<u>1,153,410</u>
Capital assets				
Machinery and equipment	6,100	-	-	6,100
Infrastructure	2,265,519	3,282,861	-	5,548,380
Less accumulated depreciation	(357,673)	(727,883)	-	(1,085,556)
Net capital assets	<u>1,913,946</u>	<u>2,554,978</u>	<u>-</u>	<u>4,468,924</u>
Total assets	<u>3,008,774</u>	<u>2,567,811</u>	<u>45,749</u>	<u>5,622,334</u>
Liabilities				
Current liabilities				
Accounts payable	6,697	2,969	-	9,666
Accrued interest payable	462	-	-	462
Due to other funds	575,931	919,529	-	1,495,460
Other liabilities	2,541	2,541	-	5,082
Current maturities of long-term debt	42,784	2,784	-	45,568
Total current liabilities	<u>628,415</u>	<u>927,823</u>	<u>-</u>	<u>1,556,238</u>
Long-term debt (net of current portion)				
Bonds payable	52,407	-	-	52,407
Total liabilities	<u>680,822</u>	<u>927,823</u>	<u>-</u>	<u>1,608,645</u>
Net Position				
Net investment in capital assets	1,818,755	2,552,194	-	4,370,949
Unrestricted	509,197	(912,206)	45,749	(357,260)
Total net position	<u>\$ 2,327,952</u>	<u>\$ 1,639,988</u>	<u>\$ 45,749</u>	<u>\$ 4,013,689</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Net Position
December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 233,652	\$ -	\$ -	\$ 233,652
Due from other funds	946,430	-	-	946,430
Accounts receivable	17,853	8,833	40,228	66,914
Total current assets	<u>1,197,935</u>	<u>8,833</u>	<u>40,228</u>	<u>1,246,996</u>
Capital assets				
Construction in progress	301,707	-	-	301,707
Machinery and equipment	6,100	-	-	6,100
Infrastructure	1,847,544	3,282,861	-	5,130,405
Less accumulated depreciation	(319,405)	(662,126)	-	(981,531)
Net capital assets	<u>1,835,946</u>	<u>2,620,735</u>	<u>-</u>	<u>4,456,681</u>
Total assets	<u>3,033,881</u>	<u>2,629,568</u>	<u>40,228</u>	<u>5,703,677</u>
Liabilities				
Current liabilities				
Accounts payable	-	-	17,888	17,888
Accrued interest payable	372	-	-	372
Due to other funds	575,931	946,430	-	1,522,361
Other liabilities	3,401	3,402	-	6,803
Current maturities of long-term debt	39,429	2,428	-	41,857
Total current liabilities	<u>619,133</u>	<u>952,260</u>	<u>17,888</u>	<u>1,589,281</u>
Long-term debt (net of current portion)				
Bonds payable	92,407	-	-	92,407
Total liabilities	<u>711,540</u>	<u>952,260</u>	<u>17,888</u>	<u>1,681,688</u>
Net Position				
Net investment in capital assets	1,704,110	2,618,307	-	4,322,417
Unrestricted	618,231	(940,999)	22,340	(300,428)
Total net position	<u>\$ 2,322,341</u>	<u>\$ 1,677,308</u>	<u>\$ 22,340</u>	<u>\$ 4,021,989</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2019

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Revenues				
Utility sales and service charges	\$ 219,915	\$ 146,673	\$ 221,773	\$ 588,361
Operating Expenses				
Salaries	65,569	65,518	-	131,087
Utilities	13,553	26,140	-	39,693
Repairs and Maintenance	69,487	11,789	-	81,276
Contracted Services	11,372	450	227,997	239,819
Miscellaneous	13,163	14,790	288	28,241
Depreciation	38,268	65,757	-	104,025
Total operating expenses	<u>211,412</u>	<u>184,444</u>	<u>228,285</u>	<u>624,141</u>
Operating Income (Loss)	8,503	(37,771)	(6,512)	(35,780)
Nonoperating Revenues (Expenses)				
Interest on long-term debt	<u>(2,311)</u>	<u>-</u>	<u>-</u>	<u>(2,311)</u>
Income (Loss) Before Transfers	6,192	(37,771)	(6,512)	(38,091)
Transfers in	-	451	50,000	50,451
Transfers out	<u>(581)</u>	<u>-</u>	<u>(20,079)</u>	<u>(20,660)</u>
Total transfers	<u>(581)</u>	<u>451</u>	<u>29,921</u>	<u>29,791</u>
Change in Net Position	5,611	(37,320)	23,409	(8,300)
Net Position, Beginning of Year	<u>2,322,341</u>	<u>1,677,308</u>	<u>22,340</u>	<u>4,021,989</u>
Net Position, End of Year	<u>\$ 2,327,952</u>	<u>\$ 1,639,988</u>	<u>\$ 45,749</u>	<u>\$ 4,013,689</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Revenues				
Utility sales and service charges	\$ 134,784	\$ 121,858	\$ 210,318	\$ 466,960
Operating Expenses				
Salaries	68,441	68,440	-	136,881
Utilities	12,667	12,468	-	25,135
Repairs and Maintenance	15,673	11,473	-	27,146
Contracted Services	-	-	234,490	234,490
Depreciation	34,435	48,613	-	83,048
Total operating expenses	<u>131,216</u>	<u>140,994</u>	<u>234,490</u>	<u>506,700</u>
Operating Income (Loss)	3,568	(19,136)	(24,172)	(39,740)
Nonoperating Revenues (Expenses)				
Interest on long-term debt	<u>(372)</u>	<u>-</u>	<u>-</u>	<u>(372)</u>
Income (Loss) Before				
Transfers and Capital Contributions	3,196	(19,136)	(24,172)	(40,112)
Transfers in	97,472	89,526	46,512	233,510
Transfers out	(181,802)	(22,090)	-	(203,892)
Capital contributions	<u>483,616</u>	<u>993,253</u>	<u>-</u>	<u>1,476,869</u>
Total transfers and capital contributions	<u>399,286</u>	<u>1,060,689</u>	<u>46,512</u>	<u>1,506,487</u>
Change in Net Position	402,482	1,041,553	22,340	1,466,375
Fund Balance, Beginning as restated (see Note 11)	<u>1,919,859</u>	<u>635,755</u>	<u>-</u>	<u>2,555,614</u>
Net Position, End of Year	<u>\$ 2,322,341</u>	<u>\$ 1,677,308</u>	<u>\$ 22,340</u>	<u>\$ 4,021,989</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2019

	Water	Sewer	Garbage	Total
Operating Activities				
Receipts from customers and users	\$ 215,910	\$ 142,673	\$ 233,693	\$ 592,276
Payments to employees	(66,074)	(66,023)	-	(132,097)
Payments to vendors	(100,878)	(50,200)	(246,173)	(397,251)
Net cash from (used for) operating activities	48,958	26,450	(12,480)	62,928
Non-Capital Financing Activities				
Net transfer (to) from other funds	(581)	451	29,921	29,791
Change in interfund balances	26,901	(26,901)	-	-
Net cash from (used for) non-capital financing activities	26,320	(26,450)	29,921	29,791
Capital and Related Financing Activities				
Property and equipment additions	(116,268)	-	-	(116,268)
Payments on long-term debt				
Principal	(37,000)	-	-	(37,000)
Interest	(2,222)	-	-	(2,222)
Net cash used for capital and related financing activities	(155,490)	-	-	(155,490)
Change in Cash and Cash Equivalents	(80,212)	-	17,441	(62,771)
Cash and Cash Equivalents - Beginning of Year	233,652	-	-	233,652
Cash and Cash Equivalents - End of Year	\$ 153,440	\$ -	\$ 17,441	\$ 170,881
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 8,503	\$ (37,771)	\$ (6,512)	\$ (35,780)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	38,268	65,757	-	104,025
Changes in assets and liabilities				
Accounts receivable	(4,005)	(4,000)	11,920	3,915
Accounts payable	6,697	2,969	(17,888)	(8,222)
Other liabilities	(860)	(861)	-	(1,721)
Compensated absences payable	355	356	-	711
Net cash from operating activities	\$ 48,958	\$ 26,450	\$ (12,480)	\$ 62,928

City of Horace, North Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Activities				
Receipts from customers and users	\$ 116,931	\$ 113,025	\$ 170,090	\$ 400,046
Payments to employees	(62,611)	(62,610)	-	(125,221)
Payments to vendors	<u>(28,340)</u>	<u>(23,941)</u>	<u>(216,602)</u>	<u>(268,883)</u>
Net cash from (used for) operating activities	<u>25,980</u>	<u>26,474</u>	<u>(46,512)</u>	<u>5,942</u>
Non-Capital Financing Activities				
Net transfer (to) from other funds	(84,330)	67,436	46,512	29,618
Change in interfund balances	<u>413,656</u>	<u>(93,910)</u>	<u>-</u>	<u>319,746</u>
Net cash from non-capital financing activities	<u>329,326</u>	<u>(26,474)</u>	<u>46,512</u>	<u>349,364</u>
Capital and Related Financing Activities				
Property and equipment additions	(314,292)	-	-	(314,292)
Proceeds from long-term debt	<u>129,407</u>	<u>-</u>	<u>-</u>	<u>129,407</u>
Net cash used for capital and related financing activities	<u>(184,885)</u>	<u>-</u>	<u>-</u>	<u>(184,885)</u>
Change in Cash and Cash Equivalents	170,421	-	-	170,421
Cash and Cash Equivalents - Beginning of Year	<u>63,231</u>	<u>-</u>	<u>-</u>	<u>63,231</u>
Cash and Cash Equivalents - End of Year	<u>\$ 233,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,652</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 3,568	\$ (19,136)	\$ (24,172)	\$ (39,740)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	34,435	48,613	-	83,048
Changes in assets and liabilities				
Accounts receivable	(17,853)	(8,833)	(40,228)	(66,914)
Accounts payable	-	-	17,888	17,888
Other liabilities	3,401	3,402	-	6,803
Compensated absences payable	<u>2,429</u>	<u>2,428</u>	<u>-</u>	<u>4,857</u>
Net cash from operating activities	<u>\$ 25,980</u>	<u>\$ 26,474</u>	<u>\$ (46,512)</u>	<u>\$ 5,942</u>
Schedule of Non-Cash Capital and Related Financing Activities				
Capital contributions	<u>\$ 483,616</u>	<u>\$ 993,253</u>	<u>\$ -</u>	<u>\$ 1,476,869</u>

Note 1 - Summary of Significant Accounting Policies

The City of Horace, North Dakota, was incorporated under the laws of the State of North Dakota and operates under the Mayor-Council form of local government. The accounting policies of the City conform to generally accepted accounting principles applicable to governmental units. The more significant of the government's accounting policies are described below.

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The City significant accounting policies are described below:

Reporting Entity

The City's financial statements include all funds for which the City is financially accountable.

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

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

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

There are no component units reported within these financial statements.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this rule are charges from the City's water, sewer and garbage utilities, and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported from the various functions concerned. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are prepared for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Although agency funds have no measurement focus, they also use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, special assessments, intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

General – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.

Highway – This fund accounts for the resources accumulated and payments made for street and highway repair and maintenance.

Sales Tax – This fund accounts for the resources accumulated and payments made for infrastructure improvements, economic development, job creation, and business retention, expansion, and recruitment through the City's sales taxes.

Debt Service – This fund accounts for the resources accumulated and payments made for principal and interest on all general obligation and special assessment bonds of governmental funds.

Capital Projects – This fund accounts for the resources accumulated and payments made for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The City reports the following major proprietary funds:

Water – This fund accounts for the provision of water utility service to the residents of the City.

Sewer – This fund accounts for the provision of sanitary sewer service to the residents of the City.

Garbage – This fund accounts for the provision of sanitation and garbage removal service to the residents of the City.

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Other Significant Accounting Policies

Budgets and Budgetary Accounting

An annual budget is adopted only for the general fund. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgetary comparisons presented in this report are on this budgetary basis.

Appropriations are authorized by the city council at the fund level, which is the legal level of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budget.

The budget is legally enacted through passage of a budget ordinance no later than October 1.

All unexpended appropriations lapse at year-end.

Any changes in the total budget of each fund must be approved by a majority vote of the city council.

Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The City considers cash equivalents to be certificates of deposit, money market funds, and other highly liquid investments with original maturities of three months or less.

Restricted cash consists of amounts that have been restricted to meet bond reserve requirements or set aside as customer deposits.

Receivable and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are charged a late fee of \$5.00 for water, sewer, and garbage charges, and \$.25 for vector and forestry charges after 30 days from the invoice date. Payments on trade receivables are applied to the earliest unpaid invoices. The carrying amount of the trade receivables is reduced by an amount that reflects management’s best estimate of the amounts that will not be collected. There are no allowances included in any receivables on the financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), mains and lines, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20-75 years
Infrastructure	20-40 years
Heavy machinery and vehicles	5-12 years
Equipment	3-10 years
Mains and lines	20-50 years

Compensated Absences

All full-time, regular employees accrue 10 hours of vacation leave each month. Employees are allowed to carry over a maximum of 120 hours into the following calendar years. Accrued vacation hours exceeding 120 hours on December 31 of each year are paid in full to the employee. Upon termination, employees are paid for accrued but unused vacation.

All full-time, regular employees accrue 4 hours of sick leave each month. Employees are allowed to carry over a maximum of 120 hours of sick leave into the following year. Hours in excess of 120 on December 31 of each year will be forfeited. Upon termination, employees will not be paid for accrued but unused sick leave.

Accumulated unpaid vested sick leave is accrued when incurred in government-wide proprietary fund financial statements. Such amounts, other than the current portion, are not accrued in governmental funds, but are recorded in the governmental activities in the government-wide statements.

Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued 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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance – represents amounts that cannot be spent due to form such as inventories, prepaids, long-term loans, and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted Fund Balance – represents amounts that exist when constraints are placed on the use of resources that are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments (or) restrictions imposed by law through constitutional provisions or enabling legislation (i.e. Emergency fund).

Committed Fund Balance – represents amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the City Council. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it previously employed to commit those amounts. (Example would be legislation, resolution, or ordinance). (ie. Sales tax ordinance, budget ordinance)

Assigned Fund Balance – represents amounts constrained by the City’s intent to be used for a specific purpose but are not restricted or committed. The Council has delegated the authority to assign these amounts to the City Administrator and the City Finance Director. Assigned amounts or changes to Assigned amounts will later be presented to the Council for review.

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

The City Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use nonspendable resources first, restricted second, committed third, assigned fourth and unassigned last.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City’s financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred inflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Risk Management

The City is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently participates in the North Dakota insurance reserve fund, North Dakota fire and tornado fund, state bonding fund and North Dakota Workforce Safety Insurance to cover claims. There have been no settled claims exceeding insurance coverage in any of the past three years.

Deferred Inflows of Resources

This separate financial statement element is reported in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, unavailable revenue, reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, special assessments, and long-term notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Implementation of GASB Statement No. 34

As of January 1, 2018, the City adopted GASB Statement No. 34, *Basic Financial Statements—And Management’s Discussion and Analysis—For State and Local Governments*. Previously the City reported under the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effect of the implementation of this standard on beginning net positions and fund balances are disclosed in Note 11.

Note 2 - Compliance and Stewardship

Expenditures in Excess of Appropriations

Expenditures in the general fund exceeded budget appropriations in 2019 and 2018 by \$44,004 and \$63,873, respectively. Expenditures in the Sales Tax fund exceeded budget appropriations in 2019 by \$97,210 and in the Highway Fund by \$6,239. These excess expenditures were funded by revenues in excess of budget and fund balance.

Note 3 - Deposits and Investments

Deposits

In accordance with the North Dakota Century Code, the City maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to or greater than 110% of the deposits not covered by insurance or bonds.

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

As of December 31, 2019, the City’s deposits include checking accounts, money market funds, and certificates of deposit.

Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury Investments and U.S. agencies, bankers' acceptances, certain repurchase agreements, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The City has no such investments at the year ended December 31, 2019 and 2018.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk. As of December 31, 2019, the City's deposits were either fully insured or properly collateralized, and have no custodial credit risk.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. North Dakota Century Code limits investing funds primarily in the short- and intermediate-term liquid securities of high credit quality to ensure adequate liquidity and to minimize the impact of changes in interest rates. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following table presents the City's deposit balances at December 31, 2019:

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and cash equivalents			
Checking accounts	\$ 257,493	\$ 257,493	\$ -
Money market	3,039,743	3,039,743	-
Certificates of deposit	11,175,782	-	11,175,782
	<u>\$ 14,473,018</u>	<u>\$ 3,297,236</u>	<u>\$ 11,175,782</u>

The following table presents the City's deposit balances at December 31, 2018:

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and cash equivalents			
Checking accounts	\$ 243,545	\$ 243,545	\$ -
Money market	3,028,002	3,028,002	-
Certificates of deposit	2,073,168	-	2,073,168
	<u>\$ 5,344,715</u>	<u>\$ 3,271,547</u>	<u>\$ 2,073,168</u>

Note 4 - Notes Receivable

On January 1, 2014, the City entered into a promissory note agreement to loan \$160,000 to the Park District of Horace, North Dakota. Under this agreement, the Park District will repay the loan in monthly installments of \$2,500 with a balloon payment due June 1, 2019. The Park District has fallen behind on these payments, but continues to make monthly payments. As of December 31, 2019 and 2018, the note had a balance of \$46,082 and \$65,512, respectively. There has not been a renegotiated due date of the note.

Note 5 - Property Taxes and Special Assessments

Property Taxes

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

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable and the portion not available within 60 days is fully offset by deferred revenue because it is not available to finance current expenditures. The delinquent taxes receivable represents the past five years of uncollected tax levies.

Special Assessments

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

Delinquent – amounts billed to property owners but not paid

Deferred – assessment installments that will be billed to property owners in future years

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

Governmental Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 268,472	\$ 1,529,040	\$ -	\$ 1,797,512
Construction in progress	7,715,234	16,133,790	211,203	23,637,821
Total capital assets not being depreciated	<u>7,983,706</u>	<u>17,662,830</u>	<u>211,203</u>	<u>25,435,333</u>
Capital assets, being depreciated				
Infrastructure	5,751,716	353,061	-	6,104,777
Buildings and improvements	279,086	-	-	279,086
Machinery and equipment	287,769	98,487	-	386,256
Vehicles	113,494	155,478	-	268,972
Total capital assets being depreciated	<u>6,432,065</u>	<u>607,026</u>	<u>-</u>	<u>7,039,091</u>
Less accumulated depreciation for				
Infrastructure	1,533,275	146,458	-	1,679,733
Buildings and improvements	73,275	10,931	-	84,206
Machinery and equipment	142,423	36,840	-	179,263
Vehicles	63,832	23,356	-	87,188
Total accumulated depreciation	<u>1,812,805</u>	<u>217,585</u>	<u>-</u>	<u>2,030,390</u>
Total capital assets being depreciated, net	<u>4,619,260</u>	<u>389,441</u>	<u>-</u>	<u>5,008,701</u>
Governmental activities capital assets, net	<u>\$ 12,602,966</u>	<u>\$ 18,052,271</u>	<u>\$ 211,203</u>	<u>\$ 30,444,034</u>
Business-Type Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ 301,707	\$ 109,218	\$ 410,925	\$ -
Capital assets, being depreciated				
Machinery and equipment	6,100	-	-	6,100
Infrastructure	5,130,405	417,975	-	5,548,380
Total capital assets being depreciated	<u>5,136,505</u>	<u>417,975</u>	<u>-</u>	<u>5,554,480</u>
Less accumulated depreciation for				
Machinery and equipment	580	609	-	1,189
Infrastructure	980,951	103,416	-	1,084,367
Total accumulated depreciation	<u>981,531</u>	<u>104,025</u>	<u>-</u>	<u>1,085,556</u>
Total capital assets being depreciated, net	<u>4,154,974</u>	<u>313,950</u>	<u>-</u>	<u>4,468,924</u>
Business-type activities capital assets, net	<u>\$ 4,456,681</u>	<u>\$ 423,168</u>	<u>\$ 410,925</u>	<u>\$ 4,468,924</u>

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2019 and 2018

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

Governmental Activities		
General government		\$ 51,185
Public works		166,400
		<u> </u>
Total depreciation expense - governmental activities		<u>\$ 217,585</u>
Business-Type Activities		
Water		38,268
Sewer facility		65,757
		<u> </u>
Total depreciation expense - business-type activities		<u>\$ 104,025</u>

Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$268,472	\$ -	\$ -	\$ 268,472
Construction in progress	5,652,261	3,539,842	1,476,869	7,715,234
				<u> </u>
Total capital assets not being depreciated	5,920,733	3,539,842	1,476,869	7,983,706
Capital assets, being depreciated				
Infrastructure	5,640,880	110,836	-	5,751,716
Buildings and improvements	279,086	-	-	279,086
Machinery and equipment	243,329	44,440	-	287,769
Vehicles	82,090	31,404	-	113,494
				<u> </u>
Total capital assets being depreciated	6,245,385	186,680	-	6,432,065
Less accumulated depreciation for				
Infrastructure	1,391,927	141,348	-	1,533,275
Buildings and improvements	62,344	10,931	-	73,275
Machinery and equipment	115,889	26,534	-	142,423
Vehicles	55,060	8,772	-	63,832
				<u> </u>
Total accumulated depreciation	1,625,220	187,585	-	1,812,805
Total capital assets being depreciated, net	4,620,165	(905)	-	4,619,260
				<u> </u>
Governmental activities capital assets, net	<u>\$ 10,540,898</u>	<u>\$ 3,538,937</u>	<u>\$ 1,476,869</u>	<u>\$ 12,602,966</u>

City of Horace, North Dakota
Notes to Financial Statements
December 31, 2019 and 2018

Business-Type Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 301,707	\$ -	\$ 301,707
Capital assets, being depreciated				
Machinery and equipment	-	6,100	-	6,100
Infrastructure	3,647,051	1,483,354	-	5,130,405
Total capital assets being depreciated	3,647,051	1,489,454	-	5,136,505
Less accumulated depreciation for				
Machinery and equipment	-	580	-	580
Infrastructure	898,483	82,468	-	980,951
Total accumulated depreciation	898,483	83,048	-	981,531
Total capital assets being depreciated, net	2,748,568	1,406,406	-	4,154,974
Business-type activities capital assets, net	<u>\$ 2,748,568</u>	<u>\$ 1,708,113</u>	<u>\$ -</u>	<u>\$ 4,456,681</u>

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

Governmental Activities	
General government	\$ 36,705
Public works	150,880
Total depreciation expense - governmental activities	<u>\$ 187,585</u>
Business-Type Activities	
Water	34,435
Sewer facility	48,613
Total depreciation expense - business-type activities	<u>\$ 83,048</u>

Note 7 - Long-Term Debt

Special assessment and temporary refunding improvement bonds are recorded as a liability in the governmental activities in the government-wide statement and are payable from the debt service funds primarily through special assessments levied and collected for local improvements. The City has a commitment relating to a pledge of full faith and credit on the special assessment bonds. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds.

All special assessment bonds are refunding bonds. North Dakota state law requires that these be called refunding bonds because warrants are the first issuance that are refunded with the bond issuance.

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Special Assessment Bonds	\$ 13,822,837	\$ -	\$ 377,042	\$ 13,445,795	\$ 577,390
Temporary Refunding Improvement Bonds	-	24,525,000	-	24,525,000	-
State Revolving Fund Loans	2,817,452	-	210,000	2,607,452	210,000
Compensated absences	18,520	32,081	35,764	14,837	14,837
	<u>\$ 16,658,809</u>	<u>\$ 24,557,081</u>	<u>\$ 622,806</u>	<u>\$ 40,593,084</u>	<u>\$ 802,227</u>
Governmental activity long-term debt					
Business-type activities					
State Revolving Fund Loans	129,407	\$ -	\$ 37,000	\$ 92,407	\$ 40,000
Compensated absences	4,857	7,189	6,478	5,568	5,568
	<u>\$ 134,264</u>	<u>\$ 7,189</u>	<u>\$ 43,478</u>	<u>\$ 97,975</u>	<u>\$ 45,568</u>
Business-type activity long-term debt					

During the year ended December 31, 2019, the City issued \$15,775,000 of Temporary Refunding Improvement Bonds, Series 2019 and \$8,750,000 of Temporary Refunding Improvement Bonds, Series 2019B to finance various municipal improvement projects. The Series 2019 bonds bear an interest rate of 2.35% and call for semiannual interest payments commencing February 2020 through August 2021, at which time the full amount of the bonds is due. The Series 2019B bonds bear an interest rate of 2.50% and call for semiannual interest payments commencing May 2020 through November 2021, at which time the full amount of the bonds is due. The City intends to issue special assessment bonds to refund the bonds upon maturity.

Outstanding debt as of December 31, 2019, is as follows:

	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
Governmental Activities				
2008 Refunding Improvement Bond	4.95	2024	\$ 98,000	\$ 40,795
2005 Refunding Improvement Bond	3.30 - 4.25	2020	420,000	30,000
2007 Refunding Improvement Bonds	3.75 - 4.50	2022	565,000	120,000
2010 Refunding Improvement Bonds	2.00 - 3.00	2021	300,000	65,000
2015 Refunding Improvement Bonds	1.10 - 4.00	2040	3,590,000	3,055,000
2017 Refunding Improvement Bond	1.60 - 4.00	2042	5,875,000	5,875,000
2018 Refunding Improvement Bonds	2.50 - 4.00	2043	450,000	435,000
2018B Refunding Improvement Bonds	2.15 - 4.25	2043	3,885,000	3,825,000
2019 Temporary Refunding Improvement Bonds	2.35	2021	15,775,000	15,775,000
2019B Temporary Refunding Improvement Bonds	2.50	2021	8,750,000	8,750,000
2016 BND Wastewater Treatment Assessment Loan	2.00	2037	1,340,000	827,955
2017 BND Drinking Water Loan	2.00	2036	580,000	440,000
2017B BND Wastewater Treatment Assessment Loan	2.00	2037	1,606,497	1,339,497
				<u>\$ 40,578,247</u>
Total				
Business-Type Activities				
2018 BND	2.00	2022	\$ 129,407	\$ 92,407

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2019 and 2018

The annual requirements to amortize all long-term debt outstanding as of December 31, 2019, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 787,390	\$ 1,126,590	\$ 40,000	\$ 1,987
2021	25,297,756	1,075,711	40,000	1,127
2022	748,140	459,730	12,407	267
2023	718,543	444,277	-	-
2024	728,966	428,605	-	-
2025-2029	3,630,000	1,873,193	-	-
2030-2034	3,085,000	1,374,476	-	-
2035-2039	3,397,452	788,024	-	-
2040-2043	2,185,000	153,506	-	-
Total	<u>\$ 40,578,247</u>	<u>\$ 7,724,112</u>	<u>\$ 92,407</u>	<u>\$ 3,381</u>

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Special Assessment Bonds	\$9,844,546	\$ 4,335,000	\$ 356,709	\$ 13,822,837	\$ 377,042
State Revolving Fund Loans	2,037,063	985,605	205,216	2,817,452	210,000
Compensated absences	-	28,230	9,710	18,520	18,520
Governmental activity long-term debt	<u>\$ 11,881,609</u>	<u>\$ 5,348,835</u>	<u>\$ 571,635</u>	<u>\$ 16,658,809</u>	<u>\$ 605,562</u>
Business-type activities					
State Revolving Fund Loans	\$ -	\$ 129,407	\$ -	\$ 129,407	\$ 37,000
Compensated absences	-	13,335	8,478	4,857	4,857
Business-type activity long-term debt	<u>\$ -</u>	<u>\$ 142,742</u>	<u>\$ 8,478</u>	<u>\$ 134,264</u>	<u>\$ 41,857</u>

During the year ended December 31, 2018, the city issued \$450,000 of Refunding Improvement Bonds, Series 2018 and \$3,885,000 of Refunding Improvement Bonds, Series 2018B to finance various municipal improvement projects. The Series 2018 bonds bear an interest rate of 2.50 - 4.00% and call for semiannual interest payments commencing November 2018 and annual principal payments commencing May 2019 through May 2043. The Series 2018B bonds bear an interest rate of 2.15 - 4.25% and call for semiannual interest payments and annual principal payments commencing May 2019 through May 2043. Both bond issuances will be repaid through the debt service fund via special assessments levied against the benefiting properties.

In prior years, the City was awarded loans through the Bank of North Dakota Revolving Loan Fund to finance improvements and expansions of the water and sewer system. During the year ended December 31, 2018, the City drew the remaining available balances on these loans, totaling \$985,605. These loans will be repaid through the debt service fund via special assessments levied against the benefiting properties.

During the year ended December 31, 2018, the city was awarded a loan of up to \$422,000 through the Bank of North Dakota Revolving Loan Fund to finance upgraded water meters throughout the City. A total of \$129,407 was drawn on the loan as of December 31, 2018. No further draws on this loan are expected. The loan bears an interest rate of 2.0% and calls for semiannual interest payments commencing March 2019 and annual principal payments commencing September 2019 through September 2022. This loan will be repaid through utility revenues in the water fund.

Outstanding debt as of December 31, 2018, is as follows:

	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
<u>Governmental Activities</u>				
2008 Refunding Improvement Bond	4.95	2024	\$ 98,000	\$ 47,837
2010 Refunding Improvement Bonds	1.00 - 3.25	2019	750,000	35,000
2005 Refunding Improvement Bond	3.30 - 4.25	2020	420,000	60,000
2007 Refunding Improvement Bonds	3.75 - 4.50	2022	565,000	160,000
2010 Refunding Improvement Bonds	2.00 - 3.00	2021	300,000	95,000
2015 Refunding Improvement Bonds	1.10 - 4.00	2040	3,590,000	3,215,000
2017 Refunding Improvement Bond	1.60 - 4.00	2042	5,875,000	5,875,000
2018 Refunding Improvement Bonds	2.50 - 4.00	2043	450,000	450,000
2018B Refunding Improvement Bonds	2.15 - 4.25	2043	3,885,000	3,885,000
2016 BND Wastewater Treatment Assessment Loan	2.00	2037	1,340,000	882,955
2017 BND Drinking Water Loan	2.00	2036	580,000	460,000
2017B BND Wastewater Treatment Assessment Loan	2.00	2037	1,606,497	1,474,497
Total				<u>\$ 16,640,289</u>
<u>Business-Type Activities</u>				
2018 BND	2.00	2022	\$ 129,407	<u>\$ 129,407</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in substantial compliance with significant limitations and restrictions for both 2019 and 2018.

Compensated Absences

Compensated absences for governmental funds are recorded as a liability in the governmental activities in the government-wide statement. This liability matures only upon qualified retirements or terminations and is paid out of the general fund.

Conduit Debt

From time to time, the City has approved issuance of Revenue Bonds 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 bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

In 2011, the City entered into an agreement with Oak Grove Lutheran School, a North Dakota nonprofit corporation, to issue School Facility Refunding Revenue bonds, Series 2011 in an aggregate amount not to exceed \$7,815,000 for the purposes of (i) financing the acquisition of an elementary school building; (ii) financing the construction and equipping of a multipurpose fine arts facility; and (iii) financing the construction and equipping of a health and wellness center and renovation of Gorder Gymnasium, located on the campus of Oak Grove Lutheran School. At December 31, 2019 and 2018, the notes had an aggregate outstanding balance of \$0 and \$140,836, respectively.

In 2013, the City entered into an agreement with Eventide Senior Living Communities, a nonprofit corporation, to issue Health Care Revenue Notes, Series 2013B and 2013C, in an aggregate not to exceed \$4,960,000 and \$1,040,000, respectively, to partially finance the acquisition, construction, and equipping of a 96-bed skilled nursing home. At December 31, 2019 and 2018, the notes had an aggregate outstanding balance of \$4,953,970 and \$5,226,605, respectively.

In 2015, the City entered into an agreement with the YMCA of Cass and Clay Counties, a North Dakota nonprofit corporation, to issue Wellness Facilities Revenue Bonds, Series 2015 in an aggregate amount not to exceed \$3,000,000 for the purposes of (i) renovating and constructing an addition to the aquatic facilities and (ii) paying the cost of issuance. At December 31, 2019 and 2018, the notes had an aggregate outstanding balance of \$4,953,970 and \$5,226,605, respectively.

Note 8 - Interfund Receivables, Payables, Transfers, and Capital Contributions

Interfund receivables/payables are used to record accrued obligations between funds. The following interfund receivables/payables existed at December 31, 2019:

	Due From Other Funds	Due To Other Funds
General	\$ 575,931	\$ -
Water	919,529	575,931
Sewer	-	919,529
	<u>\$ 1,495,460</u>	<u>\$ 1,495,460</u>

The following interfund receivables/payables existed at December 31, 2018:

	Due From Other Funds	Due To Other Funds
General	\$ 672,864	\$ -
Debt Service	-	96,933
Water	946,430	575,931
Sewer	-	946,430
	<u>\$ 1,619,294</u>	<u>\$ 1,619,294</u>

A summary of the City's interfund transfers for the year ended December 31, 2019 is as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
General	\$ 97,648	\$ 108,720
Highway	45,000	-
Debt Service	427,730	244,433
Capital Projects	<u>128,183</u>	<u>375,199</u>
Total governmental funds	<u>698,561</u>	<u>728,352</u>
Proprietary Funds		
Water	-	581
Sewer	451	-
Garbage	<u>50,000</u>	<u>20,079</u>
Total proprietary funds	<u>50,451</u>	<u>20,660</u>
Total transfers	<u>\$ 749,012</u>	<u>\$ 749,012</u>

A summary of the City's interfund transfers for the year ended December 31, 2018 is as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
General	\$ 327	\$ 63,833
Debt Service	445,357	32,488
Capital Projects	<u>240,464</u>	<u>619,445</u>
Total governmental funds	<u>686,148</u>	<u>715,766</u>
Proprietary Funds		
Water	97,472	181,802
Sewer	89,526	22,090
Garbage	<u>46,512</u>	<u>-</u>
Total proprietary funds	<u>233,510</u>	<u>203,892</u>
Total transfers	<u>\$ 919,658</u>	<u>\$ 919,658</u>

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

During the year ended December 31, 2018, the governmental activities made capital contributions to the water and sewer funds of \$483,616 and \$993,253, respectively. These amounts represent the water and sewer portions of infrastructure projects constructed within the capital projects fund.

Note 9 - Pension Plan

The City of Horace provides a retirement plan for City employees. The plan is a SIMPLE IRA defined contribution plan in which the City contributes an amount established by the governing board, currently 3% of gross salaries for each eligible employee. Employees are immediately 100% vested in all employer contributions. An employee's contribution can be any amount less than or equal to the maximum amount allowed by law. The employee is eligible for the plan immediately upon hiring and is expected to earn at least \$5,000 in the year. A deduction is made with each pay period and forwarded to the plan account monthly, which is maintained by Alerus Financial. 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 year's ended December 31, 2019 and 2018 were \$13,921 and \$7,820, respectively.

Note 10 - Commitments

Cass Rural Water Users District Agreement – Portions of new developments of the City lay within the service territory of Cass Rural Water Users District (the District). The District has the exclusive right to provide water and water service to properties located within the District's service territory. Therefore, the City and the District have entered into an agreement in which the City agreed to construct the needed water infrastructure within the new development areas located within District territory. Upon completion, the City will sell the infrastructure within District territory to the District at the City's cost plus 13%. As of December 31, 2019, the City has incurred \$1,117,529 of construction costs reported as construction in progress related to infrastructure that will be sold to the District upon completion.

Diversion Project Cost Share Agreement – The Fargo Moorhead Diversion Authority has a cost sharing agreement with the City, in relation to the Fargo Moorhead Diversion Project. The Fargo Moorhead Diversion Authority will contribute 80% of the costs the City incurs to its infrastructure system in relation to the Fargo Moorhead Diversion Project. The City will contribute the remaining 20% match to the contribution from the Authority. The Diversion Authority will provide the match to the City with reimbursements up to a total amount of \$5,000,000. To date the City has not incurred any costs to its infrastructure system.

Construction Commitments – The City has the following active construction projects as of December 31, 2019.

Project	Ending Balance	Total Expected Cost	Expected Completion
Terra Gardens Addition	\$ 2,875,175	\$ 3,046,376	2020
Lost River Addition 1, 2, 3, & 4	4,628,712	4,974,000	2020
Sewer Line to Fargo	1,804,216	1,852,000	2020
Maple Grove Drainage Improvements & Chip Seal	289,756	350,110	2020
Lakeview Drive & 79th Avenue	2,363,613	4,777,000	2020
76th Avenue and Roundabout	4,720,661	4,945,000	2020
63rd Street	1,095,700	2,961,000	2020
Visto Industrial Addition	1,425,389	2,000,000	2020
Cub Creek First Addition	4,375,354	8,192,450	2020
County Road 17 Shared Use Path	18,457	240,000	2020
3rd & 4th St Drainage Improvements	40,789	49,708	2020

Note 11 - Restatement

As of January 1, 2018, the City changed from reporting under the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, to the provisions of GASB Statement No. 34, *Basic Financial Statements—And Management’s Discussion and Analysis—For State and Local Governments*. In addition, management changed the reporting of certain individual nonmajor funds to being reported within the General Fund in accordance with the guidance in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result, the following restatements have been made to the fund balances in the governmental funds and the governmental activities net position:

	General Fund - Fund Balance	Highway Fund - Fund Balance	Sales Tax Fund - Fund Balance	Debt Service Fund - Fund Balance	Capital Projects Fund - Fund Balance	Other Governmental Funds - Fund Balance	Governmental Activities - Net Position
Balance - December 31, 2017, as previously reported	\$ 845,045	\$ 921,777	\$ 185,167	\$ (230,191)	\$ 2,007,182	\$ 65,008	\$ (5,953,884)
Restatement due to:							
Reclassifying nonmajor governmental funds into the general fund	65,008	-	-	-	-	(65,008)	-
Unrecorded notes receivable	96,674	-	-	-	-	-	-
Unrecorded special assessments	-	-	-	5,690,591	-	-	5,690,591
Unrecorded due from other governmental units	46,810	29,141	60,893	-	-	-	136,844
Unrecorded capital assets	-	-	-	-	-	-	10,540,898
Unrecorded unavailable revenue	(96,674)	-	-	(5,374,888)	-	-	-
Reclassification of long term debt	-	-	-	-	-	-	(2,037,063)
Reclassification of unspent bond proceeds	-	-	-	-	149,336	-	149,336
Balance - January 1, 2018, as restated	<u>\$ 956,863</u>	<u>\$ 950,918</u>	<u>\$ 246,060</u>	<u>\$ 85,512</u>	<u>\$ 2,156,518</u>	<u>\$ -</u>	<u>\$ 8,526,722</u>

The follow restatements have been made to the net position in the proprietary funds and business-type activities:

	Water and Sewer Fund - Net Position	Water Fund - Net Position	Sewer Fund - Net Position	Business-Type Activities - Net Position
Balance - December 31, 2017, as previously reported	\$ (2,080,681)	\$ -	\$ -	\$ (2,080,681)
Restatement due to:				
Reclassification of combined water and sewer fund into separate funds	2,080,681	(1,040,341)	(1,040,340)	-
Reclassification of long term debt	-	2,037,063	-	2,037,063
Reclassification of unspent bond proceeds	-	(149,336)	-	(149,336)
Restatement due to previously unrecorded capital assets	-	1,072,473	1,676,095	2,748,568
Balance - January 1, 2018, as restated	<u>\$ -</u>	<u>\$ 1,919,859</u>	<u>\$ 635,755</u>	<u>\$ 2,555,614</u>

Note 12 - Subsequent Event

Subsequent to year end, the City issued two new bonds: 2020A Temporary Refunding Improvement Bond for \$25,715,000 at an interest rate of 1.9% used to finance costs of street, water and sewer projects, and 2020B Permanent Refunding Improvement Bond for \$20,575,000 at an interest rate of 2.9% which will be used to refund the Temporary Refunding Improvement Bonds Series 2019A and 2019B.

Note 13 - Issued But Non-Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City.

The first statement issued but not yet implemented that will significantly affect the City is statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the City in the year ended December 31, 2020.

The second statement issued but not yet implemented that will significantly affect the City is Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the City in the year ended December 31, 2022.

The third statement issued but not yet implemented that will significantly affect the City is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the City in the year ended December 31, 2021.

The final statement issued but not yet implemented that will significantly affect the City is Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required noted disclosures. The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognized assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. This statement will be implemented at the City in the year ended December 31, 2022.

Management has not yet determined the effect these pronouncements will have on the City's financial statements.



Required Supplementary Information
December 31, 2019

City of Horace, North Dakota

City of Horace, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2019

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
General property taxes	\$ 812,807	\$ 798,725	\$ (14,082)
Licenses and permits	273,600	315,341	41,741
Intergovernmental revenue	266,250	240,082	(26,168)
Charges for services	29,800	19,680	(10,120)
Loan repayments	20,000	20,000	-
Investment earnings	70,000	77,610	7,610
Miscellaneous	24,750	26,108	1,358
	<u>1,497,207</u>	<u>1,497,546</u>	<u>339</u>
Expenditures			
Current			
General government	1,142,707	1,213,545	(70,838)
Public safety	156,900	161,596	(4,696)
General government - other	29,800	27,594	2,206
Capital outlay	37,800	8,476	29,324
	<u>1,367,207</u>	<u>1,411,211</u>	<u>(44,004)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures			
	130,000	86,335	(43,665)
Other Financing Sources (Uses)			
Transfers in	-	97,648	97,648
Transfers out	(130,000)	(108,720)	21,280
	<u>(130,000)</u>	<u>(11,072)</u>	<u>118,928</u>
Net Change in Fund Balance			
	<u>\$ -</u>	75,263	<u>\$ 75,263</u>
Fund Balance, Beginning			
		<u>611,504</u>	
Fund Balance, Ending			
		<u>\$ 686,767</u>	

City of Horace, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2018

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
General property taxes	\$ 687,625	\$ 696,009	\$ 8,384
Special assessments	-	5,487	5,487
Licenses and permits	112,325	92,265	(20,060)
Intergovernmental revenue	210,000	221,797	11,797
Loan repayments	40,000	30,000	(10,000)
Fines and forfeitures	-	45	45
Investment earnings	15,000	15,034	34
Miscellaneous	50	61,783	61,733
	<u>1,065,000</u>	<u>1,122,420</u>	<u>57,420</u>
Expenditures			
Current			
General government	1,185,400	1,247,647	(62,247)
Public safety	155,000	156,626	(1,626)
	<u>1,340,400</u>	<u>1,404,273</u>	<u>(63,873)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(275,400)	(281,853)	(6,453)
Other Financing Sources (Uses)			
Transfers in	-	327	327
Transfers out	-	(63,833)	(63,833)
	<u>-</u>	<u>(63,506)</u>	<u>(63,506)</u>
Net Change in Fund Balance	<u>\$ (275,400)</u>	<u>(345,359)</u>	<u>\$ (69,959)</u>
Fund Balance, Beginning as restated (see Note 11)		<u>956,863</u>	
Fund Balance, Ending		<u>\$ 611,504</u>	

City of Horace, North Dakota

Highway Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2019

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
Intergovernmental revenue	\$ 150,000	\$ 159,228	\$ 9,228
Miscellaneous	10,000	-	(10,000)
Total revenues	<u>160,000</u>	<u>159,228</u>	<u>(772)</u>
Expenditures			
Current			
Public works	214,000	237,815	(23,815)
Capital outlay	52,500	34,924	17,576
Total expenditures	<u>266,500</u>	<u>272,739</u>	<u>(6,239)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(106,500)	(113,511)	5,467
Other Financing Sources (Uses)			
Transfers in	45,000	45,000	-
Transfers out	(10,000)	-	(10,000)
Total other financing sources and uses	<u>35,000</u>	<u>45,000</u>	<u>(10,000)</u>
Net Change in Fund Balance	<u>\$ (71,500)</u>	(68,511)	<u>\$ (4,533)</u>
Fund Balance, Beginning		<u>768,771</u>	
Fund Balance, Ending		<u>\$ 700,260</u>	

City of Horace, North Dakota

Sales Tax Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2019

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
Sales Tax	\$ 600,000	\$ 658,244	\$ 58,244
Miscellaneous	-	48,500	48,500
Total revenues	<u>600,000</u>	<u>706,744</u>	<u>106,744</u>
Expenditures			
Capital outlay	<u>43,000</u>	<u>140,210</u>	<u>(97,210)</u>
Total expenditures	<u>43,000</u>	<u>140,210</u>	<u>(97,210)</u>
Net Change in Fund Balance	<u>\$ 557,000</u>	566,534	<u>\$ 9,534</u>
Fund Balance, Beginning		<u>634,168</u>	
Fund Balance, Ending		<u>\$ 1,200,702</u>	



Additional Reports
December 31, 2019

City of Horace, North Dakota



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

To the Honorable Mayor and City Council
City of Horace, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horace, North Dakota (the City), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 22, 2020. For the governmental activities, business-type activities, and each major fund we were unable to audit the adjustment to change the basis of accounting from modified cash to modified accrual as of January 1, 2018 since that date was prior to our engagement as auditors for the City, and we were unable to satisfy ourselves regarding the necessary adjustments to utility receivables, other accounts receivable, accounts payable, and revenue amounts as of December 31, 2017 that enter into the determination of changes in fund balance, changes in net position, and cash flows, as applicable, for the year ended December 31, 2018. Because of the significance of these matters, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions of the governmental activities, the business-type activities, and each major fund on the results of operations and cash flows, where applicable, and for the year ended December 31, 2018. Accordingly, we do not express an opinion on the changes in net position, changes in fund balance and cash flows for the year ended December 31, 2018.

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 are 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2019-004 to be a significant deficiency.

Compliance and Other Matters

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



Fargo, North Dakota
September 22, 2020

**2019-001 Segregation of Duties
Material Weakness**

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

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

Cause – There is a limited amount of office employees.

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

Recommendation – While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

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

**2019-002 Material Journal Entries including Prior Period Adjustments
Material Weakness**

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

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

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

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

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

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

**2019-003 Preparation of Financial Statements
Material Weakness**

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

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

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

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

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

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

**2019-004 Undocumented Pay Rates
Significant Deficiency**

Criteria – A good system of internal control contemplates an adequate system for ensuring all employees are compensated at approved rates of pay.

Condition – During the course of our engagement, we noted that no documentation could be found to verify total salary or hourly rate for two employees.

Cause – The City does not have an internal control system designed to properly record authorized pay rates.

Effect – This deficiency could result in improper payments to employees.

Recommendation – Management should make an effort to ensure all pay rates are properly documented.

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