



Financial Statements
December 31, 2020

City of Horace, North Dakota

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City of Horace, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2020

<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Kory Peterson	Mayor	6/30/2024
Jeffrey Trudeau	City Commissioner	6/30/2024
Chelsey Johnson	City Commissioner	6/30/2022
Sarah Veit	City Commissioner	6/30/2022
Naomi Burkland	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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

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 as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for and the respective budgetary comparison for the general fund, sales tax fund, and highway fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis 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 opinion on the basic financial statements is 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 August 18, 2021, 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.



Fargo, North Dakota
August 18, 2021

City of Horace, North Dakota
Statement of Net Position
December 31, 2020

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 17,391,573	\$ 112,375	\$ 17,503,948
Receivables			
Accounts	8,731	81,575	90,306
Property taxes	11,292	-	11,292
Special assessments	37,083,324	-	37,083,324
Due from other governmental units	276,529	-	276,529
Interfund balances	175,931	(175,931)	-
Capital assets			
Land	1,882,889	-	1,882,889
Construction in progress	37,911,451	-	37,911,451
Infrastructure	12,004,814	10,300,710	22,305,524
Buildings and improvements	279,086	-	279,086
Machinery and equipment	773,343	18,660	792,003
Vehicles	296,670	-	296,670
Less accumulated depreciation	(2,354,573)	(1,253,652)	(3,608,225)
Total assets	<u>105,741,060</u>	<u>9,083,737</u>	<u>114,824,797</u>
Liabilities			
Accounts payable	2,291,743	10,999	2,302,742
Retainage payable	418,591	-	418,591
Accrued interest payable	189,084	1,725	190,809
Other liabilities	41,401	5,205	46,606
Long-term liabilities			
Due within one year	1,156,853	44,607	1,201,460
Due in more than one year	60,768,127	305,000	61,073,127
Total liabilities	<u>64,865,799</u>	<u>367,536</u>	<u>65,233,335</u>
Net position			
Net investment in capital assets	2,056,422	8,716,111	10,772,533
Restricted	49,506,256	-	49,506,256
Unrestricted	(10,687,417)	90	(10,687,327)
Total net position	<u>\$ 40,875,261</u>	<u>\$ 8,716,201</u>	<u>\$ 49,591,462</u>

City of Horace, North Dakota
Statement of Activities
Year Ended December 31, 2020

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	\$ 2,668,526	\$ 2,278,313	\$ 2,753,731	\$ 2,363,518	\$ -	\$ 2,363,518
Public safety	167,575	733	-	(166,842)	-	(166,842)
Public works	1,585,126	36,831	-	(1,548,295)	-	(1,548,295)
Interest on long-term debt	1,241,795	-	-	(1,241,795)	-	(1,241,795)
Total governmental activities	5,663,022	2,315,877	2,753,731	(593,414)	-	(593,414)
Business-type activities						
Water	335,078	274,398	-	-	(60,680)	(60,680)
Sewer	246,689	244,305	-	-	(2,384)	(2,384)
Garbage	264,493	277,739	-	-	13,246	13,246
Total business-type activities	846,260	796,442	-	-	(49,818)	(49,818)
Total Government	\$ 6,509,282	\$ 3,112,319	\$ 2,753,731	(593,414)	(49,818)	(643,232)
General revenues						
Property taxes				840,491	-	840,491
Special assessments				21,297,367	-	21,297,367
Sales tax				1,018,495	-	1,018,495
State aid				365,219	-	365,219
Investment earnings				178,361	-	178,361
Premium on bond issuance				317,808	-	317,808
Miscellaneous				731,427	-	731,427
Transfers and capital contributions				(4,752,330)	4,752,330	-
Total general revenue and transfers				19,996,838	4,752,330	24,749,168
Change in net position				19,403,424	4,702,512	24,105,936
Net position - beginning				21,471,837	4,013,689	25,485,526
Net position - ending				\$ 40,875,261	\$ 8,716,201	\$ 49,591,462

City of Horace, North Dakota
 Governmental Funds
 Balance Sheet
 December 31, 2020

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,137,036	\$ 437,195	\$ 870,554	\$ 1,781,663	\$ 13,165,125	\$ 17,391,573
Due from other funds	175,931	-	-	-	-	175,931
Receivables						
Accounts	8,731	-	-	-	-	8,731
Notes	16,571	-	-	-	-	16,571
Property taxes	11,292	-	-	-	-	11,292
Special assessments	-	-	-	37,083,324	-	37,083,324
Due from other governmental units	52,698	28,472	178,788	-	-	259,958
Total assets	\$ 1,402,259	\$ 465,667	\$ 1,049,342	\$ 38,864,987	\$ 13,165,125	\$ 54,947,380
Liabilities						
Accounts payable	\$ 179,614	\$ 6,864	\$ -	\$ -	\$ 2,105,265	\$ 2,291,743
Retainage payable	-	-	-	-	418,591	418,591
Other liabilities	37,181	4,220	-	-	-	41,401
Total liabilities	216,795	11,084	-	-	2,523,856	2,751,735
Deferred Inflows of Resources						
Unavailable revenue-property taxes	11,292	-	-	-	-	11,292
Unavailable revenue-special assessments	-	-	-	36,194,037	-	36,194,037
Unavailable revenue-notes receivable	16,571	-	-	-	-	16,571
Total deferred inflows of resources	27,863	-	-	36,194,037	-	36,221,900
Fund Balance						
Restricted for						
Highway maintenance	-	454,583	-	-	-	454,583
Sales tax	-	-	1,049,342	-	-	1,049,342
Debt service	-	-	-	2,670,950	-	2,670,950
Capital projects	-	-	-	-	10,641,269	10,641,269
Unassigned	1,157,601	-	-	-	-	1,157,601
Total fund balance	1,157,601	454,583	1,049,342	2,670,950	10,641,269	15,973,745
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,402,259	\$ 465,667	\$ 1,049,342	\$ 38,864,987	\$ 13,165,125	\$ 54,947,380

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, 2020

Total Fund Balances – Governmental Funds	\$ 15,973,745
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.	50,793,680
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.	36,221,900
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	(33,443,405)
Temporary improvement bonds	(25,715,000)
State revolving loans	(2,519,107)
Capital lease payable	(224,871)
Compensated absences	(22,597)
Accrued interest	(189,084)
Total Net Position – Governmental Activities	<u><u>\$ 40,875,261</u></u>

City of Horace, North Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2020

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Revenues						
General property taxes	\$ 850,533	\$ -	\$ -	\$ -	\$ -	\$ 850,533
Special assessments	-	-	-	2,205,298	-	2,205,298
Licenses and permits	719,930	-	-	-	-	719,930
Intergovernmental	316,666	142,151	184,618	-	2,469,964	3,113,399
Charges for services	1,544,446	-	-	-	-	1,544,446
Loan repayment	42,567	-	-	-	-	42,567
Fines and forfeitures	733	-	-	-	-	733
Sales tax	-	-	1,018,495	-	-	1,018,495
Investment earnings	49,522	-	-	-	128,839	178,361
Miscellaneous	763,050	1,891	-	-	-	764,941
Total revenues	4,287,447	144,042	1,203,113	2,205,298	2,598,803	10,438,703
Expenditures						
Current						
General government	2,033,394	-	-	-	-	2,033,394
Public safety	167,575	-	-	-	-	167,575
Public works	-	259,265	-	-	-	259,265
General government - other	42,353	-	-	23,359	441,125	506,837
Capital outlay	290,547	130,454	316,936	-	25,255,168	25,993,105
Debt service						
Principal	7,205	-	-	787,390	-	794,595
Interest and fees	-	-	-	1,222,318	-	1,222,318
Total expenditures	2,541,074	389,719	316,936	2,033,067	25,696,293	30,977,089
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,746,373	(245,677)	886,177	172,231	(23,097,490)	(20,538,386)
Other Financing Sources (Uses)						
Capital lease proceeds	232,076	-	-	-	-	232,076
Bond proceeds	-	-	-	1,000,241	45,411,414	46,411,655
Payment to bond refunding agent	-	-	-	-	(24,525,000)	(24,525,000)
Discount on bonds	-	-	-	-	(578,626)	(578,626)
Premium on bonds	-	-	-	-	317,808	317,808
Transfers in	-	-	-	30,661	3,122,562	3,153,223
Transfers out	(1,507,615)	-	(1,037,537)	(577,410)	(30,661)	(3,153,223)
Total other financing sources (uses)	(1,275,539)	-	(1,037,537)	453,492	23,717,497	21,857,913
Net Change in Fund Balance	470,834	(245,677)	(151,360)	625,723	620,007	1,319,527
Fund Balance, Beginning	686,767	700,260	1,200,702	2,045,227	10,021,262	14,654,218
Fund Balance, Ending	<u>\$ 1,157,601</u>	<u>\$ 454,583</u>	<u>\$ 1,049,342</u>	<u>\$ 2,670,950</u>	<u>\$ 10,641,269</u>	<u>\$ 15,973,745</u>

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

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, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 1,319,527
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	25,482,345
Depreciation expense	(337,126)
The net effect of the disposal of capital assets is to decrease net position	(43,243)
The contribution of capital assets to business-type activities from governmental activities is not recorded in the governmental funds. However, in the statement of activities, that amount is included within transfers	(4,752,330)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	19,062,267
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	(7,760)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	3,880
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	(46,411,655)
Capital lease issued	(232,076)
Capital lease retirement	7,205
Bond principal retirement	25,312,390
	<u>19,403,424</u>
Change in Net Position of Governmental Activities	<u>\$ 19,403,424</u>

City of Horace, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
General property taxes	\$ 870,000	\$ 853,500	\$ 850,533	\$ (2,967)
Licenses and permits	318,150	720,550	719,930	(620)
Intergovernmental	282,500	226,400	316,666	90,266
Charges for services	42,000	42,000	1,544,446	1,502,446
Loan repayments	30,000	30,000	42,567	12,567
Fines and forfeitures	2,500	800	733	(67)
Investment earnings	15,000	50,000	49,522	(478)
Miscellaneous	52,550	856,350	763,050	(93,300)
Total revenues	<u>1,612,700</u>	<u>2,779,600</u>	<u>4,287,447</u>	<u>1,507,847</u>
Expenditures				
Current				
General government	1,215,200	2,073,750	2,033,394	40,356
Public safety	170,000	167,800	167,575	225
General government - other	42,000	42,000	42,353	(353)
Capital outlay	27,500	66,000	290,547	(224,547)
Debt service				
Principal	-	-	7,205	(7,205)
Total expenditures	<u>1,454,700</u>	<u>2,349,550</u>	<u>2,541,074</u>	<u>(191,524)</u>
Excess of Revenues over Expenditures	158,000	430,050	1,746,373	1,316,323
Other Financing Sources (Uses)				
Capital lease proceeds	-	-	232,076	232,076
Transfers out	(200,000)	(350,000)	(1,507,615)	(1,157,615)
Total other financing sources (uses)	<u>(200,000)</u>	<u>(350,000)</u>	<u>(1,275,539)</u>	<u>(925,539)</u>
Net Change in Fund Balance	<u>\$ (42,000)</u>	<u>\$ 80,050</u>	470,834	<u>\$ 390,784</u>
Fund Balance, Beginning			<u>686,767</u>	
Fund Balance, Ending			<u>\$ 1,157,601</u>	

City of Horace, North Dakota

Highway Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental	\$ 170,000	\$ 140,000	\$ 142,151	\$ 2,151
Miscellaneous	<u>1,400</u>	<u>1,900</u>	<u>1,891</u>	<u>(9)</u>
Total revenues	<u>171,400</u>	<u>141,900</u>	<u>144,042</u>	<u>2,142</u>
Expenditures				
Current				
Public works	206,650	267,950	259,265	8,685
Capital outlay	<u>145,000</u>	<u>130,000</u>	<u>130,454</u>	<u>(454)</u>
Total expenditures	<u>351,650</u>	<u>397,950</u>	<u>389,719</u>	<u>8,231</u>
Deficiency of Revenues under Expenditures	(180,250)	(256,050)	(245,677)	(6,089)
Other Financing Sources				
Transfers in	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (150,250)</u>	<u>\$ (256,050)</u>	(245,677)	<u>\$ (6,089)</u>
Fund Balance, Beginning			<u>700,260</u>	
Fund Balance, Ending			<u>\$ 454,583</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, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Sales Tax	\$ 550,000	\$ 840,000	\$ 1,018,495	\$ 178,495
Intergovernmental	-	184,618	184,618	-
Total revenues	<u>550,000</u>	<u>1,024,618</u>	<u>1,203,113</u>	<u>178,495</u>
Expenditures				
Capital outlay	<u>1,250,000</u>	<u>1,719,500</u>	<u>316,936</u>	<u>1,402,564</u>
Excess (Deficiency) of Revenues over (under) Expenditures	(700,000)	(694,882)	886,177	1,581,059
Other Financing Sources (Uses)				
Transfers out	-	-	<u>(1,037,537)</u>	<u>1,037,537</u>
Net Change in Fund Balance	<u>\$ (700,000)</u>	<u>\$ (694,882)</u>	(151,360)	<u>\$ 2,618,596</u>
Fund Balance, Beginning			<u>1,200,702</u>	
Fund Balance, Ending			<u>\$ 1,049,342</u>	

City of Horace, North Dakota
Proprietary Funds
Statement of Net Position
December 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 69,378	\$ 20,000	\$ 22,997	\$ 112,375
Due from other funds	855,808	-	-	855,808
Accounts receivable	25,060	20,216	36,299	81,575
Total current assets	<u>950,246</u>	<u>40,216</u>	<u>59,296</u>	<u>1,049,758</u>
Capital assets				
Machinery and equipment	18,660	-	-	18,660
Infrastructure	3,728,146	6,572,564	-	10,300,710
Less accumulated depreciation	(434,889)	(818,763)	-	(1,253,652)
Net capital assets	<u>3,311,917</u>	<u>5,753,801</u>	<u>-</u>	<u>9,065,718</u>
Total assets	<u>4,262,163</u>	<u>5,794,017</u>	<u>59,296</u>	<u>10,115,476</u>
Liabilities				
Current liabilities				
Accounts payable	3,721	6,977	301	10,999
Accrued interest payable	1,725	-	-	1,725
Due to other funds	175,931	855,808	-	1,031,739
Other liabilities	3,123	2,082	-	5,205
Current maturities of long-term debt	42,764	1,843	-	44,607
Total current liabilities	<u>227,264</u>	<u>866,710</u>	<u>301</u>	<u>1,094,275</u>
Long-term debt (net of current portion)				
Bonds payable	305,000	-	-	305,000
Total liabilities	<u>532,264</u>	<u>866,710</u>	<u>301</u>	<u>1,399,275</u>
Net Position				
Net investment in capital assets	2,964,153	5,751,958	-	8,716,111
Unrestricted	765,746	(824,651)	58,995	90
Total net position	<u>\$ 3,729,899</u>	<u>\$ 4,927,307</u>	<u>\$ 58,995</u>	<u>\$ 8,716,201</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Revenues				
Utility sales and service charges	\$ 274,398	\$ 244,305	\$ 277,739	\$ 796,442
Operating Expenses				
Salaries	93,953	66,957	-	160,910
Utilities	9,131	23,859	-	32,990
Repairs and Maintenance	88,955	18,507	-	107,462
Contracted Services	43,297	28,307	264,192	335,796
Miscellaneous	15,595	18,179	301	34,075
Depreciation	77,216	90,880	-	168,096
Total operating expenses	<u>328,147</u>	<u>246,689</u>	<u>264,493</u>	<u>839,329</u>
Operating Income (Loss)	(53,749)	(2,384)	13,246	(42,887)
Nonoperating Expenses				
Interest on long-term debt	(6,931)	-	-	(6,931)
Income (Loss) before Capital Contributions	(60,680)	(2,384)	13,246	(49,818)
Capital Contributions	<u>1,462,627</u>	<u>3,289,703</u>	<u>-</u>	<u>4,752,330</u>
Change in Net Position	1,401,947	3,287,319	13,246	4,702,512
Net Position, Beginning of Year	<u>2,327,952</u>	<u>1,639,988</u>	<u>45,749</u>	<u>4,013,689</u>
Net Position, End of Year	<u>\$ 3,729,899</u>	<u>\$ 4,927,307</u>	<u>\$ 58,995</u>	<u>\$ 8,716,201</u>

City of Horace, North Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Activities				
Receipts from customers and users	\$ 271,196	\$ 236,922	\$ 269,748	\$ 777,866
Payments to employees	(93,391)	(68,357)	-	(161,748)
Payments to vendors	<u>(159,954)</u>	<u>(84,844)</u>	<u>(264,192)</u>	<u>(508,990)</u>
Net cash from operating activities	<u>17,851</u>	<u>83,721</u>	<u>5,556</u>	<u>107,128</u>
Non-Capital Financing Activities				
Change in interfund balances	<u>(336,279)</u>	<u>(63,721)</u>	<u>-</u>	<u>(400,000)</u>
Capital and Related Financing Activities				
Property and equipment additions	(12,560)	-	-	(12,560)
Proceeds from long-term debt	292,593	-	-	292,593
Payments on long-term debt				
Principal	(40,000)	-	-	(40,000)
Interest	<u>(5,668)</u>	<u>-</u>	<u>-</u>	<u>(5,668)</u>
Net cash from capital and related financing activities	<u>234,365</u>	<u>-</u>	<u>-</u>	<u>234,365</u>
Change in Cash and Cash Equivalents	(84,063)	20,000	5,556	(58,507)
Cash and Cash Equivalents - Beginning of Year	<u>153,441</u>	<u>-</u>	<u>17,441</u>	<u>170,882</u>
Cash and Cash Equivalents - End of Year	<u>\$ 69,378</u>	<u>\$ 20,000</u>	<u>\$ 22,997</u>	<u>\$ 112,375</u>
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities				
Operating income (loss)	\$ (53,749)	\$ (2,384)	\$ 13,246	\$ (42,887)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	77,216	90,880	-	168,096
Changes in assets and liabilities				
Accounts receivable	(3,202)	(7,383)	(7,991)	(18,576)
Accounts payable	(2,976)	4,008	301	1,333
Other liabilities	582	(459)	-	123
Compensated absences payable	<u>(20)</u>	<u>(941)</u>	<u>-</u>	<u>(961)</u>
Net cash from operating activities	<u>\$ 17,851</u>	<u>\$ 83,721</u>	<u>\$ 5,556</u>	<u>\$ 107,128</u>
Schedule of Non-Cash Capital and Related Financing Activities				
Capital contributions	<u>\$ 1,462,627</u>	<u>\$ 3,289,703</u>	<u>\$ -</u>	<u>\$ 4,752,330</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, except for the reimbursement revenues yet to be received from federal grants. These revenue sources are considered current reimbursement of current liabilities in the respective fiscal year. 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.

Property taxes and special assessment revenues that are measurable and met the eligibility criteria but not available within 60 days after the fiscal year-end are classified as deferred outflows of resources in the governmental fund financial statements, but recognized as revenues in the government-wide financial statements.

Note 2 - 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, 2020, 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, 2020.

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, 2020, the City's deposits were either fully insured or properly collateralized.

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.

Credit Risk

State statutes authorize investments 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.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

The following table presents the City's deposit balances at December 31, 2020:

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and cash equivalents			
Checking accounts	\$ 3,076,575	\$ 3,076,575	\$ -
Money market	3,063,048	3,063,048	-
Certificates of deposit	11,364,325	-	11,364,325
	\$ 17,503,948	\$ 6,139,623	\$ 11,364,325

Note 3 - 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, 2020, the note had a balance of \$16,571. There has not been a renegotiated due date of the note.

Note 4 - 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 unavailable revenue, a deferred inflow of resources, 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

Special assessments receivable not collected within 60 days following year end are offset by unavailable revenue, a deferred inflow of resources, because they are not available to finance current expenditures.

Note 5 - Tax Abatements

The City provides tax abatements through one program, Property Tax Exemption of certain New Single Family, Condominium, and Townhouse Residential Properties. This exemption allows for newly constructed homes, excluding land, to possibly be exempt for up to two years from when construction begins.

The following is information relevant to the disclosure of this program for the fiscal year ended December 31, 2020:

Tax Abatement Program	
Property Tax Incentives for New Single Family, Condo, and Townhouse Residential Properties	<u>\$ 28,985</u>

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

Governmental Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,797,512	\$ 85,377	\$ -	\$ 1,882,889
Construction in progress	23,637,821	24,794,968	10,521,338	37,911,451
Total capital assets not being depreciated	<u>25,435,333</u>	<u>24,880,345</u>	<u>10,521,338</u>	<u>39,794,340</u>
Capital assets, being depreciated				
Infrastructure	6,104,777	5,900,037	-	12,004,814
Buildings and improvements	279,086	-	-	279,086
Machinery and equipment	386,256	443,273	56,186	773,343
Vehicles	268,972	27,698	-	296,670
Total capital assets being depreciated	<u>7,039,091</u>	<u>6,371,008</u>	<u>56,186</u>	<u>13,353,913</u>
Less accumulated depreciation for				
Infrastructure	1,679,733	236,596	-	1,916,329
Buildings and improvements	84,206	10,931	-	95,137
Machinery and equipment	179,263	63,158	12,943	229,478
Vehicles	87,188	26,441	-	113,629
Total accumulated depreciation	<u>2,030,390</u>	<u>337,126</u>	<u>12,943</u>	<u>2,354,573</u>
Total capital assets being depreciated, net	<u>5,008,701</u>	<u>6,033,882</u>	<u>43,243</u>	<u>10,999,340</u>
Governmental activities capital assets, net	<u>\$ 30,444,034</u>	<u>\$ 30,914,227</u>	<u>\$ 10,564,581</u>	<u>\$ 50,793,680</u>

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2020

Business-Type Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, being depreciated				
Machinery and equipment	\$ 6,100	\$ 12,560	\$ -	\$ 18,660
Infrastructure	5,548,380	4,752,330	-	10,300,710
Total capital assets being depreciated	5,554,480	4,764,890	-	10,319,370
Less accumulated depreciation for				
Machinery and equipment	1,189	1,215	-	2,404
Infrastructure	1,084,367	166,881	-	1,251,248
Total accumulated depreciation	1,085,556	168,096	-	1,253,652
Total capital assets being depreciated, net	4,468,924	4,596,794	-	9,065,718
Business-type activities capital assets, net	\$ 4,468,924	\$ 4,596,794	\$ -	\$ 9,065,718

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

Governmental Activities		
General government		\$ 57,819
Public works		279,307
Total depreciation expense - governmental activities		\$ 337,126
Business-Type Activities		
Water		77,216
Sewer		90,880
Total depreciation expense - business-type activities		\$ 168,096

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. Special assessments bonds are repaid through the debt service funds.

State revolving fund loans in the governmental activities are repaid through the debt service funds. State revolving fund loans in the business-type activities are repaid through the water fund.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Special Assessment Bonds	\$ 13,445,795	\$ 20,575,000	\$ 577,390	\$ 33,443,405	\$ 897,756
Temporary Refunding					
Improvement Bonds	24,525,000	25,715,000	24,525,000	25,715,000	-
State Revolving Fund Loans	2,607,452	121,655	210,000	2,519,107	215,000
Direct borrowings,					
capital leases payable	-	232,076	7,205	224,871	21,500
Compensated absences	14,837	31,235	23,475	22,597	22,597
Governmental activity long-term debt	<u>\$ 40,593,084</u>	<u>\$ 46,674,966</u>	<u>\$ 25,343,070</u>	<u>\$ 61,924,980</u>	<u>\$ 1,156,853</u>
Business-type activities					
State Revolving Fund Loans	92,407	\$ 292,593	\$ 40,000	\$ 345,000	\$ 40,000
Compensated absences	5,568	5,964	6,925	4,607	4,607
Business-type activity long-term debt	<u>\$ 97,975</u>	<u>\$ 298,557</u>	<u>\$ 46,925</u>	<u>\$ 349,607</u>	<u>\$ 44,607</u>

During the year ended December 31, 2020, the City issued \$25,715,000 of Temporary Refunding Improvement Bonds, Series 2020A, to finance various municipal improvement projects. The bonds bear an interest rate of 1.90% and call for semiannual interest payments commencing February 2021 through August 2022, 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. Payment on those bonds will be made from the debt service fund through special assessments levied against the benefitting properties.

During the year ended December 31, 2020, the City issued \$20,575,000 of Refunding Improvement Bonds, Series 2020B, to refund the Temporary Refunding Improvement Bonds of 2019 and Temporary Refunding Improvement Bonds, Series 2019B. The bonds bear an interest rate of 2.10-3.50% and call for semiannual interest payments commencing May 2021 and annual principal payments commencing May 1, 2021 through May 2037. The City did not receive a significant economic gain as a result of the Refunding. Payment on these bonds is made from the debt service fund through special assessments levied against the benefitting properties.

In prior years, the City was awarded a loan through the North Dakota Public Financing Authority to finance improvements and expansions to the sewer system. During the year ended December 31, 2020, the City drew an additional \$121,655 on this loan. This loan will be repaid through the debt service fund via special assessments levied against the benefitting properties.

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2020

In the prior year, the City was awarded a loan of up to \$422,000 through North Dakota Public Financing Authority to finance upgraded water meters throughout the City. During the year ended December 31, 2020, the City drew an additional \$292,593 on this loan. This loan will be repaid through utility revenues in the water fund.

Outstanding bonded debt and loans as of December 31, 2020, is as follows:

	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
<u>Governmental Activities</u>				
2008 Refunding Improvement Bond	4.95	2024	\$ 98,000	\$ 33,405
2007 Refunding Improvement Bonds	3.75 - 4.50	2022	565,000	80,000
2010 Refunding Improvement Bonds	2.00 - 3.00	2021	300,000	35,000
2015 Refunding Improvement Bonds	1.10 - 4.00	2040	3,590,000	2,895,000
2017 Refunding Improvement Bond	1.60 - 4.00	2042	5,875,000	5,690,000
2018 Refunding Improvement Bonds	2.50 - 4.00	2043	450,000	420,000
2018B Refunding Improvement Bonds	2.15 - 4.25	2043	3,885,000	3,715,000
2020A Temporary Refunding Improvement Bonds	1.90	2022	25,715,000	25,715,000
2020B Refunding Improvement Bonds	2.10 - 3.50	2033	20,575,000	20,575,000
2016 ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,340,000	772,955
2017 ND Public Finance Authority Drinking Water Loan	2.00	2036	580,000	420,000
2017B ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,728,152	1,326,152
Total				<u>\$ 61,677,512</u>
<u>Business-Type Activities</u>				
2018 ND Public Finance Authority Water Meter Loan	2.00	2028	\$ 422,000	<u>\$ 345,000</u>

The annual requirements to amortize all bonded debt and loans debt outstanding as of December 31, 2020, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 1,112,756	\$ 1,632,039	\$ 40,000	\$ 5,175
2022	27,058,140	1,527,445	40,000	4,575
2023	1,328,543	1,005,331	40,000	3,975
2024	1,358,966	971,060	45,000	3,375
2025	1,380,000	935,165	45,000	2,700
2026-2030	7,080,000	4,084,128	135,000	4,050
2031-2035	7,190,000	3,028,301	-	-
2036-2040	8,279,107	1,795,001	-	-
2041-2043	6,890,000	493,430	-	-
Total	<u>\$ 61,677,512</u>	<u>\$ 15,471,900</u>	<u>\$ 345,000</u>	<u>\$ 23,850</u>

Direct borrowings capital leases payable consist of equipment with a total cost of \$339,252, and total accumulated depreciation of \$19,023 as of December 31, 2020. The direct borrowing capital lease payable agreements include provisions that in the event of default, the property will be repossessed. Payments on capital leases are made out of the general fund.

During the year ended December 31, 2020, the City entered into capital lease agreements to finance the purchase of a motor grader and a mower. The motor grader lease bears an interest rate of 3.85% and calls for annual payments of principal and interest commencing January 2021 through January 2026 with a balloon payment of the remaining balance due in January 2027. The mower lease bears an interest rate of 5.01% and calls for an initial payment of principal only upon inception of the lease in September 2020 and annual payments of principal and interest through September 2024.

Outstanding direct borrowing capital leases payable as of December 31, 2020, is as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Final Maturities</u>	<u>Original Principal</u>	<u>Outstanding Balance</u>
Motor Grader	3.85	2027	\$ 199,327	\$ 199,327
Mower	5.01	2024	32,749	25,544
				<u>\$ 224,871</u>

The annual requirements to amortize the direct borrowing capital leases payable outstanding as of December 31, 2020, are as follows:

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 21,500	\$ 9,091
2022	22,407	8,184
2023	23,355	7,237
2024	24,341	6,251
2025	18,164	5,222
2026-2027	<u>115,104</u>	<u>8,282</u>
Total	<u>\$ 224,871</u>	<u>\$ 44,267</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in substantial compliance with significant limitations and restrictions as of December 31, 2020.

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 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, 2020, the notes had an aggregate outstanding balance of \$4,638,646.

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, 2020, the notes had an aggregate outstanding balance of \$1,940,827.

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, 2020:

	Due From Other Funds	Due To Other Funds
General	\$ 175,931	\$ -
Water	855,808	175,931
Sewer	-	855,808
	<u>\$ 1,031,739</u>	<u>\$ 1,031,739</u>

A summary of the City's interfund transfers for the year ended December 31, 2020, is as follows:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ -	\$ 1,507,615
Sales Tax	-	1,037,537
Debt Service	30,661	577,410
Capital Projects	3,122,562	30,661
Total transfers	<u>\$ 3,153,223</u>	<u>\$ 3,153,223</u>

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

During the year ended December 31, 2020, the governmental activities made capital contributions to the water and sewer funds of \$1,462,627 and \$3,289,703, respectively. These amounts represent the water and sewer portions of infrastructure projects constructed within the capital projects fund.

Note 9 - Retirement 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 retirement costs for the year's December 31, 2020, was \$19,716.

Subsequent to year end, the City terminated the SIMPLE IRA defined contribution plan and instituted a 457(b) deferred compensation plan administered by Nationwide. The governing board has established an employer match of 6% of gross salaries for eligible employees. This plan is effective January 1, 2021.

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, 2020, the City has incurred \$2,730,023 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, 2020.

Project	Ending Balance	Total Expected Cost	Expected Completion
81st Avenue & 63rd Street	\$ 1,968,710	\$ 2,370,000	2021
76th Avenue and Roundabout	5,226,880	5,330,000	2021
Lakeview Drive & 79th Avenue	4,291,740	4,740,000	2021
Visto Industrial Addition	2,273,504	2,445,000	2021
Cub Creek First Addition	5,448,398	7,690,000	2021
Sanitary Sewer to 100th Avenue	677,291	864,107	2021
Sanitary Sewer to 64th Avenue	34,657	Preliminary	2022
Maple Lake Estates Addition	4,143,285	6,128,221	2021
Southdale Farms 1st Addition	6,801,818	7,509,430	2021
82nd Street	888,946	2,845,339	2021
Lost River 5th Addition	6,017,076	6,167,535	2021
Wall Avenue	3,257	Preliminary	2022
Oxbow Drainage	21,351	Preliminary	2022
Water Line Replacement	60,987	5,291,000	2022
Water Connection to Cass Rural	26,885	1,500,000	2022
Southdale Farms 3rd Addition	163	7,525,578	2022
Terra Gardens 3rd Addition	7,675	2,339,877	2022
Lakeview Addition	18,828	8,148,971	2022

Note 11 - Subsequent Event

Subsequent to year end, the City issued Temporary Refunding Improvement Bonds Series 2021A for \$9,010,000 at an interest rate of .65%. The bonds will be used to finance costs of street, water, and sewer projects.



Additional Reports
December 31, 2020

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, and each major fund of the City of Horace, North Dakota (the City), as of and for the years ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 18, 2021.

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) as a basis for designing 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.

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 2020-001 and 2020-003 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 2020-002 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
August 18, 2021

**2020-001 Segregation of Duties
Material Weakness**

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

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

Cause – There is a limited amount of office employees.

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

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

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

**2020-002 Adjusting Journal Entries
Significant Deficiency**

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

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

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

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

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

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

2020-003 **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.