



Financial Statements  
December 31, 2021

# City of Horace, North Dakota

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City of Horace, North Dakota  
Elected and Appointed Officials (Unaudited)  
December 31, 2021

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<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Kory Peterson	Mayor	6/30/2024
Naomi Burkland	City Commissioner	6/30/2024
Chelsey Johnson	City Commissioner	6/30/2022
Jeffrey Trudeau	City Commissioner	6/30/2024
Sarah Veit	City Commissioner	6/30/2022
<u>Administration</u>		
Brent Holper	City Administrator	
Liz Heisey	Finance Director (through 6/30/2022)	
Matt Voltz	Finance Director (current)	



## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited 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 year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for and the respective budgetary comparison for the general fund, highway fund, and sales tax fund, the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Correction of Error*

As discussed in Note 11 to the financial statements, certain errors resulting in an overstatement of amounts previously reported as Capital Project Fund expenditures and Governmental Activities construction in progress and an understatement of Water Fund and Business-Type Activities construction in progress as of December 31, 2020, were discovered by management of the City during the current year. Accordingly, a restatement has been made to the Capital Projects Fund fund balance and Governmental Activities, the Water Fund, and Business-Type Activities construction in progress as of January 1, 2021, to correct the error. Our opinions are not modified with respect to that matter.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

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

### ***Supplementary 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 schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the elected and appointed officials listing, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2023, on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is 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 City of Example's internal control over financial reporting and compliance.

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

Fargo, North Dakota  
February 15, 2023

City of Horace, North Dakota  
Statement of Net Position  
December 31, 2021

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 18,561,886	\$ 43,009	\$ 18,604,895
Receivables			
Accounts	8,521	131,605	140,126
Property taxes	12,826	-	12,826
Special assessments	58,320,800	-	58,320,800
Due from other governmental units	316,958	1,234,108	1,551,066
Interfund balances	1,398,995	(1,398,995)	-
Capital assets			
Land	1,882,889	-	1,882,889
Construction in progress	9,702,525	2,492,356	12,194,881
Infrastructure	47,776,375	19,825,752	67,602,127
Buildings and improvements	279,086	-	279,086
Machinery and equipment	798,785	18,660	817,445
Vehicles	283,170	-	283,170
Less accumulated depreciation	(3,061,042)	(1,508,121)	(4,569,163)
Total assets	<u>136,281,774</u>	<u>20,838,374</u>	<u>157,120,148</u>
<b>Liabilities</b>			
Accounts payable	716,530	83,372	799,902
Retainage payable	836,374	213,768	1,050,142
Accrued interest payable	378,887	2,296	381,183
Other liabilities	46,173	7,443	53,616
Unearned revenue	231,116	-	231,116
Long-term liabilities			
Due within one year	2,113,161	161,457	2,274,618
Due in more than one year	77,871,146	728,415	78,599,561
Total liabilities	<u>82,193,387</u>	<u>1,196,751</u>	<u>83,390,138</u>
<b>Net position</b>			
Net investment in capital assets	(10,834,601)	19,731,464	8,896,863
Restricted	72,853,239	-	72,853,239
Unrestricted	(7,930,251)	(89,841)	(8,020,092)
Total net position	<u>\$ 54,088,387</u>	<u>\$ 19,641,623</u>	<u>\$ 73,730,010</u>



City of Horace, North Dakota  
Statement of Activities  
Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 5,460,054	\$ 1,887,117	\$ -	\$ -	\$ (3,572,937)	\$ -	\$ (3,572,937)
Public safety	173,775	4,602	-	-	(169,173)	-	(169,173)
Public works	1,100,825	52,393	-	-	(1,048,432)	-	(1,048,432)
Interest on long-term debt	1,896,447	-	-	-	(1,896,447)	-	(1,896,447)
Total governmental activities	8,631,101	1,944,112	-	-	(6,686,989)	-	(6,686,989)
Business-type activities							
Water	335,325	371,557	-	1,234,108	-	1,270,340	1,270,340
Sewer	352,573	524,539	-	-	-	171,966	171,966
Garbage	294,902	327,976	-	-	-	33,074	33,074
Total business-type activities	982,800	1,224,072	-	1,234,108	-	1,475,380	1,475,380
Total Government	<u>\$ 9,613,901</u>	<u>\$ 3,168,184</u>	<u>\$ -</u>	<u>\$ 1,234,108</u>	<u>(6,686,989)</u>	<u>1,475,380</u>	<u>(5,211,609)</u>
General revenues							
Property taxes					1,027,794	-	1,027,794
Special assessments					26,077,999	-	26,077,999
Sales tax					1,507,865	-	1,507,865
Franchise fees					34,033	-	34,033
State aid					436,423	-	436,423
Investment earnings					96,338	-	96,338
Miscellaneous					169,705	-	169,705
Transfers and capital contributions					(9,450,042)	9,450,042	-
Total general revenue and transfers					19,900,115	9,450,042	29,350,157
Change in net position					13,213,126	10,925,422	24,138,548
Net position - beginning					40,875,261	8,716,201	49,591,462
Net position - ending					<u>\$ 54,088,387</u>	<u>\$ 19,641,623</u>	<u>\$ 73,730,010</u>

City of Horace, North Dakota

Governmental Funds

Balance Sheet

December 31, 2021

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 466,177	\$ 283,356	\$ 1,898,324	\$ 3,614,858	\$ 12,299,171	\$ 18,561,886
Due from other funds	1,398,995	-	-	-	-	1,398,995
Receivables						
Accounts	8,521	-	-	-	-	8,521
Property taxes	12,826	-	-	-	-	12,826
Special assessments	-	-	-	58,320,800	-	58,320,800
Due from other governmental units	46,553	27,843	242,562	-	-	316,958
<b>Total assets</b>	<b>\$ 1,933,072</b>	<b>\$ 311,199</b>	<b>\$ 2,140,886</b>	<b>\$ 61,935,658</b>	<b>\$ 12,299,171</b>	<b>\$ 78,619,986</b>
<b>Liabilities</b>						
Accounts payable	\$ 361,006	\$ 22,653	\$ 13,771	\$ 9,410	\$ 309,690	\$ 716,530
Retainage payable	-	-	5,000	-	831,374	836,374
Other liabilities	40,401	5,772	-	-	-	46,173
Unearned revenue	-	-	-	-	231,116	231,116
<b>Total liabilities</b>	<b>401,407</b>	<b>28,425</b>	<b>18,771</b>	<b>9,410</b>	<b>1,372,180</b>	<b>1,830,193</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue-property taxes	12,826	-	-	-	-	12,826
Unavailable revenue-special assessments	-	-	-	56,116,257	-	56,116,257
<b>Total deferred inflows of resources</b>	<b>12,826</b>	<b>-</b>	<b>-</b>	<b>56,116,257</b>	<b>-</b>	<b>56,129,083</b>
<b>Fund Balance</b>						
Restricted for						
Highway maintenance	-	282,774	-	-	-	282,774
Sales tax	-	-	2,122,115	-	-	2,122,115
Debt service	-	-	-	5,809,991	-	5,809,991
Capital projects	-	-	-	-	10,926,991	10,926,991
Unassigned	1,518,839	-	-	-	-	1,518,839
<b>Total fund balance</b>	<b>1,518,839</b>	<b>282,774</b>	<b>2,122,115</b>	<b>5,809,991</b>	<b>10,926,991</b>	<b>20,660,710</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$ 1,933,072</b>	<b>\$ 311,199</b>	<b>\$ 2,140,886</b>	<b>\$ 61,935,658</b>	<b>\$ 12,299,171</b>	<b>\$ 78,619,986</b>

City of Horace, North Dakota  
Governmental Funds  
Reconciliation of the Balance Sheet to the Statement of Net Position  
December 31, 2021

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Total Fund Balances – Governmental Funds	\$ 20,660,710
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.	57,661,788
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.	56,129,083
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	(57,085,649)
Temporary improvement bonds	(19,155,000)
State revolving loans	(2,358,800)
Bond premiums	(1,156,366)
Capital lease payable	(203,371)
Compensated absences	(25,121)
Accrued interest payable	(378,887)
	<hr/>
Total Net Position – Governmental Activities	<u>\$ 54,088,387</u>

City of Horace, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2021

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Revenues						
General property taxes	\$ 1,042,801	\$ -	\$ -	\$ -	\$ -	\$ 1,042,801
Special assessments	-	-	-	6,154,245	-	6,154,245
Licenses and permits	680,525	-	-	-	-	680,525
Intergovernmental	274,996	146,945	-	-	-	421,941
Charges for services	57,244	-	-	-	-	57,244
Loan repayment	38,951	-	-	-	-	38,951
Fines and forfeitures	4,602	-	-	-	-	4,602
Sales tax	-	-	1,507,865	-	-	1,507,865
Investment earnings	60,891	-	-	-	35,447	96,338
Miscellaneous	1,404,874	-	-	-	-	1,404,874
Total revenues	<u>3,564,884</u>	<u>146,945</u>	<u>1,507,865</u>	<u>6,154,245</u>	<u>35,447</u>	<u>11,409,386</u>
Expenditures						
Current						
General government	1,673,941	-	-	-	-	1,673,941
Public safety	173,775	-	-	-	-	173,775
Public works	70,846	273,786	-	-	-	344,632
General government - other	83,441	-	-	21,523	546,434	651,398
Capital outlay	19,052	44,968	435,092	-	19,902,926	20,402,038
Debt service						
Principal	21,500	-	-	1,112,756	-	1,134,256
Interest and fees	9,091	-	-	1,706,871	-	1,715,962
Total expenditures	<u>2,051,646</u>	<u>318,754</u>	<u>435,092</u>	<u>2,841,150</u>	<u>20,449,360</u>	<u>26,096,002</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,513,238	(171,809)	1,072,773	3,313,095	(20,413,913)	(14,686,616)
Other Financing Sources (Uses)						
Bond proceeds	-	-	-	239,273	43,510,420	43,749,693
Payment to bond refunding agent	-	-	-	-	(25,715,000)	(25,715,000)
Premium on bonds	-	-	-	-	1,176,014	1,176,014
Transfers in	3,016,592	-	400,000	-	3,640,327	7,056,919
Transfers out	(4,168,592)	-	(400,000)	(413,327)	(2,000,000)	(6,981,919)
Total other financing sources (uses)	<u>(1,152,000)</u>	<u>-</u>	<u>-</u>	<u>(174,054)</u>	<u>20,611,761</u>	<u>19,285,707</u>
Net Change in Fund Balance	361,238	(171,809)	1,072,773	3,139,041	197,848	4,599,091
Fund Balance, Beginning, as restated (Note 11)	1,157,601	454,583	1,049,342	2,670,950	10,729,143	16,061,619
Fund Balance, Ending	<u>\$ 1,518,839</u>	<u>\$ 282,774</u>	<u>\$ 2,122,115</u>	<u>\$ 5,809,991</u>	<u>\$ 10,926,991</u>	<u>\$ 20,660,710</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, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 4,599,091
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	17,200,993
Depreciation expense	(719,969)
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	(9,525,042)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	19,907,183
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	(2,524)
Accrued interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	(189,803)
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	(43,749,693)
Bond premiums issued, net	(1,156,366)
Capital lease retirement	21,500
Bond principal retirement	26,827,756
Change in Net Position of Governmental Activities	<u>\$ 13,213,126</u>

City of Horace, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual  
Year Ended December 31, 2021

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
<b>Revenues</b>				
General property taxes	\$ 1,085,500	\$ 1,085,500	\$ 1,042,801	\$ (42,699)
Licenses and permits	395,750	680,711	680,525	(186)
Intergovernmental	186,000	277,500	274,996	(2,504)
Charges for services	42,000	49,200	57,244	8,044
Loan repayments	16,600	16,600	38,951	22,351
Fines and forfeitures	2,500	3,700	4,602	902
Investment earnings	24,000	53,000	60,891	7,891
Miscellaneous	87,650	1,394,925	1,404,874	9,949
<b>Total revenues</b>	<b>1,840,000</b>	<b>3,561,136</b>	<b>3,564,884</b>	<b>3,748</b>
<b>Expenditures</b>				
Current				
General government	1,496,164	1,546,106	1,673,941	(127,835)
Public safety	175,000	174,600	173,775	825
Public works	-	-	70,846	(70,846)
General government - other	42,000	49,200	83,441	(34,241)
Capital outlay	9,000	17,300	19,052	(1,752)
Debt service				
Principal	-	-	21,500	(21,500)
Interest and fees	-	-	9,091	(9,091)
<b>Total expenditures</b>	<b>1,722,164</b>	<b>1,787,206</b>	<b>2,051,646</b>	<b>(264,440)</b>
<b>Excess of Revenues over Expenditures</b>	<b>117,836</b>	<b>1,773,930</b>	<b>1,513,238</b>	<b>(260,692)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	2,400,200	3,016,592	616,392
Transfers out	(117,836)	(4,168,700)	(4,168,592)	108
<b>Total other financing sources (uses)</b>	<b>(117,836)</b>	<b>(1,768,500)</b>	<b>(1,152,000)</b>	<b>616,500</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 5,430</b>	<b>361,238</b>	<b>\$ 355,808</b>
<b>Fund Balance, Beginning</b>			<b>1,157,601</b>	
<b>Fund Balance, Ending</b>			<b>\$ 1,518,839</b>	

City of Horace, North Dakota

Highway Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual  
Year Ended December 31, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental	<u>\$ 136,000</u>	<u>\$ 141,000</u>	<u>\$ 146,945</u>	<u>\$ 5,945</u>
Expenditures				
Current				
Public works	222,450	301,100	273,786	27,314
Capital outlay	<u>31,386</u>	<u>31,586</u>	<u>44,968</u>	<u>(13,382)</u>
Total expenditures	<u>253,836</u>	<u>332,686</u>	<u>318,754</u>	<u>13,932</u>
Deficiency of Revenues under Expenditures	(117,836)	(191,686)	(171,809)	(7,987)
Other Financing Sources (Uses)				
Transfers out	<u>(117,836)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (235,672)</u>	<u>\$ (191,686)</u>	(171,809)	<u>\$ (7,987)</u>
Fund Balance, Beginning			<u>454,583</u>	
Fund Balance, Ending			<u>\$ 282,774</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, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Sales Tax	<u>\$ 600,000</u>	<u>\$ 1,299,300</u>	<u>\$ 1,507,865</u>	<u>\$ 208,565</u>
Expenditures				
Capital outlay	<u>250,000</u>	<u>501,300</u>	<u>435,092</u>	<u>66,208</u>
Excess of Revenues over Expenditures	350,000	798,000	1,072,773	274,773
Other Financing Sources (Uses)				
Transfers in	-	400,000	400,000	-
Transfers out	<u>-</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u><u>\$ 350,000</u></u>	<u><u>\$ 798,000</u></u>	1,072,773	<u><u>\$ 274,773</u></u>
Fund Balance, Beginning			<u>1,049,342</u>	
Fund Balance, Ending			<u><u>\$ 2,122,115</u></u>	



City of Horace, North Dakota

Proprietary Funds  
Statement of Net Position  
December 31, 2021

	Water	Sewer	Garbage	Total
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 43,009	\$ 43,009
Accounts receivable	42,396	40,099	49,110	131,605
Due from other governmental units	1,234,108	-	-	1,234,108
Total current assets	1,276,504	40,099	92,119	1,408,722
Capital assets				
Construction in progress	2,492,356	-	-	2,492,356
Machinery and equipment	18,660	-	-	18,660
Infrastructure	6,040,813	13,784,939	-	19,825,752
Less accumulated depreciation	(530,048)	(978,073)	-	(1,508,121)
Net capital assets	8,021,781	12,806,866	-	20,828,647
Total assets	9,298,285	12,846,965	92,119	22,237,369
<b>Liabilities</b>				
Current liabilities				
Accounts payable	78,720	4,602	50	83,372
Accrued interest payable	2,296	-	-	2,296
Retainage payable	213,768	-	-	213,768
Due to other funds	863,839	535,156	-	1,398,995
Other liabilities	4,467	2,976	-	7,443
Current maturities of long-term debt	158,874	2,583	-	161,457
Total current liabilities	1,321,964	545,317	50	1,867,331
Long-term debt (net of current portion)				
Bonds payable	728,415	-	-	728,415
Total liabilities	2,050,379	545,317	50	2,595,746
<b>Net Position</b>				
Net investment in capital assets	6,924,598	12,806,866	-	19,731,464
Unrestricted	323,308	(505,218)	92,069	(89,841)
Total net position	\$ 7,247,906	\$ 12,301,648	\$ 92,069	\$ 19,641,623

City of Horace, North Dakota  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2021

	Water	Sewer	Garbage	Total
Operating Revenues				
Utility sales and service charges	\$ 371,557	\$ 524,539	\$ 327,976	\$ 1,224,072
Operating Expenses				
Salaries	105,888	70,569	-	176,457
Utilities	11,841	17,823	-	29,664
Repairs and maintenance	45,355	21,109	-	66,464
Contracted services	15,893	47,903	294,745	358,541
Miscellaneous	53,718	35,859	157	89,734
Depreciation	95,159	159,310	-	254,469
Total operating expenses	327,854	352,573	294,902	975,329
Operating Income	43,703	171,966	33,074	248,743
Nonoperating Revenues (Expenses)				
Grant revenue	1,234,108	-	-	1,234,108
Interest on long-term debt	(7,471)	-	-	(7,471)
Total nonoperating revenues	1,226,637	-	-	1,226,637
Income before Transfers and Capital Contributions	1,270,340	171,966	33,074	1,475,380
Transfers in	-	40,000	-	40,000
Transfers out	(65,000)	(50,000)	-	(115,000)
Capital Contributions	2,312,667	7,212,375	-	9,525,042
Total transfers and capital contributions	2,247,667	7,202,375	-	9,450,042
Change in Net Position	3,518,007	7,374,341	33,074	10,925,422
Net Position, Beginning of Year	3,729,899	4,927,307	58,995	8,716,201
Net Position, End of Year	\$ 7,247,906	\$ 12,301,648	\$ 92,069	\$ 19,641,623

City of Horace, North Dakota  
Proprietary Funds  
Statement of Cash Flows  
Year Ended December 31, 2021

	Water	Sewer	Garbage	Total
Operating Activities				
Receipts from customers and users	\$ 354,221	\$ 504,656	\$ 315,165	\$ 1,174,042
Payments to employees	(103,434)	(68,935)	-	(172,369)
Payments to vendors	(51,808)	(125,069)	(295,153)	(472,030)
Net cash from operating activities	198,979	310,652	20,012	529,643
Non-Capital Financing Activities				
Net transfer (to) from other funds	(65,000)	(10,000)	-	(75,000)
Change in interfund balances	1,543,716	(320,652)	-	1,223,064
Net cash from (used for) non-capital financing activities	1,478,716	(330,652)	-	1,148,064
Capital and Related Financing Activities				
Capital asset additions	(2,278,588)	-	-	(2,278,588)
Proceeds from long-term debt	578,415	-	-	578,415
Payments on long-term debt				
Principal	(40,000)	-	-	(40,000)
Interest	(6,900)	-	-	(6,900)
Net cash used for capital and related financing activities	(1,747,073)	-	-	(1,747,073)
Change in Cash and Cash Equivalents	(69,378)	(20,000)	20,012	(69,366)
Cash and Cash Equivalents - Beginning of Year	69,378	20,000	22,997	112,375
Cash and Cash Equivalents - End of Year	\$ -	\$ -	\$ 43,009	\$ 43,009
Reconciliation of Operating Income to Net Cash From Operating Activities				
Operating income	\$ 43,703	\$ 171,966	\$ 33,074	\$ 248,743
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation	95,159	159,310	-	254,469
Changes in assets and liabilities				
Accounts receivable	(17,336)	(19,883)	(12,811)	(50,030)
Accounts payable	74,999	(2,375)	(251)	72,373
Other liabilities	1,344	894	-	2,238
Compensated absences payable	1,110	740	-	1,850
Net cash from operating activities	\$ 198,979	\$ 310,652	\$ 20,012	\$ 529,643
Schedule of Non-Cash Capital and Related Financing Activities				
Capital contributions	\$ 2,312,667	\$ 7,212,375	\$ -	\$ 9,525,042
Purchase of capital assets in retainage payable	\$ 213,768	\$ -	\$ -	\$ 213,768

**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.

**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 and special assessments.

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 - Stewardship, Compliance, and Accountability**

### **Expenditures in Excess of Appropriations**

Budget control for the fund is established by its total appropriations. The General Fund had expenditures exceeding appropriations in the amount of \$264,440 for the year ended December 31, 2021. These over expenditures were funded by future revenues and existing fund balance of the General Fund.

## **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, 2021, 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, 2021.

**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, 2021, 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, 2021:

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and cash equivalents			
Checking accounts	\$ 172,348	\$ 172,348	\$ -
Money market	3,078,973	3,078,973	-
Certificates of deposit	15,353,574	-	15,353,574
	<u>\$ 18,604,895</u>	<u>\$ 3,251,321</u>	<u>\$ 15,353,574</u>

#### **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, 2021:

##### **Tax Abatement Program**

Property Tax Incentives for New Single Family, Condo, and  
Townhouse Residential Properties

\$ 50,866

**Note 6 - Capital Assets**

Capital asset activity for the year ended December 31, 2021 was as follows:

Governmental Activities	Beginning Balance, (As Restated)	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,882,889	\$ -	\$ -	\$ 1,882,889
Construction in progress	37,823,577	20,329,335	48,450,387	9,702,525
Total capital assets not being depreciated	39,706,466	20,329,335	48,450,387	11,585,414
Capital assets, being depreciated				
Infrastructure	12,004,814	35,771,561	-	47,776,375
Buildings and improvements	279,086	-	-	279,086
Machinery and equipment	773,343	25,442	-	798,785
Vehicles	296,670	-	13,500	283,170
Total capital assets being depreciated	13,353,913	35,797,003	13,500	49,137,416
Less accumulated depreciation for				
Infrastructure	1,916,329	617,316	-	2,533,645
Buildings and improvements	95,137	10,931	-	106,068
Machinery and equipment	229,478	67,744	-	297,222
Vehicles	113,629	23,978	13,500	124,107
Total accumulated depreciation	2,354,573	719,969	13,500	3,061,042
Total capital assets being depreciated, net	10,999,340	35,077,034	-	46,076,374
Governmental activities capital assets, net	\$ 50,705,806	\$ 55,406,369	\$ 48,450,387	\$ 57,661,788

Included in Decreases and Transfers of Construction in progress is \$3,153,784, relating to completed projects that were transferred to Cass Rural Water District. This amount represents water infrastructure of new developments within Cass Rural Water District's service territory, as required by a Cooperation agreement.

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2021

<u>Business-Type Activities</u>	<u>Beginning Balance, (As Restated)</u>	<u>Increases and Transfers</u>	<u>Decreases and Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Construction in progress	\$ 87,874	\$ 2,404,482	\$ -	\$ 2,492,356
Capital assets, being depreciated				
Machinery and equipment	\$ 18,660	\$ -	\$ -	\$ 18,660
Infrastructure	10,300,710	9,525,042	-	19,825,752
Total capital assets being depreciated	10,319,370	9,525,042	-	19,844,412
Less accumulated depreciation for				
Machinery and equipment	2,404	1,866	-	4,270
Infrastructure	1,251,248	252,603	-	1,503,851
Total accumulated depreciation	1,253,652	254,469	-	1,508,121
Total capital assets being depreciated, net	9,065,718	9,270,573	-	18,336,291
Business-type activities capital assets, net	\$ 9,153,592	\$ 11,675,055	\$ -	\$ 20,828,647

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

Governmental Activities	
General government	\$ 45,333
Public works	674,636
Total depreciation expense - governmental activities	\$ 719,969
Business-Type Activities	
Water	\$ 95,159
Sewer	159,310
Total depreciation expense - business-type activities	\$ 254,469

**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, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Special Assessment Bonds	\$ 33,443,405	\$ 24,540,000	\$ 897,756	\$ 57,085,649	\$ 1,803,140
Temporary Refunding Improvement Bonds	25,715,000	19,155,000	25,715,000	19,155,000	-
State Revolving Fund Loans	2,519,107	54,693	215,000	2,358,800	215,000
Unamortized Premium on Bond Issuance	-	1,176,014	19,648	1,156,366	47,493
Direct borrowings, capital leases payable	224,871	-	21,500	203,371	22,407
Compensated absences	22,597	35,242	32,718	25,121	25,121
Governmental activity long-term debt	<u>\$ 61,924,980</u>	<u>\$ 44,960,949</u>	<u>\$ 26,901,622</u>	<u>\$ 79,984,307</u>	<u>\$ 2,113,161</u>
Business-type activities					
State Revolving Fund Loans	\$ 345,000	\$ 578,415	\$ 40,000	\$ 883,415	\$ 155,000
Compensated absences	4,607	6,187	4,337	6,457	6,457
Business-type activity long-term debt	<u>\$ 349,607</u>	<u>\$ 584,602</u>	<u>\$ 44,337</u>	<u>\$ 889,872</u>	<u>\$ 161,457</u>

During the year ended December 31, 2021, the City issued \$9,010,000 of Temporary Refunding Improvement Bonds Series 2021A, to finance various municipal improvement projects. The bonds bear an interest rate of .65% and call for semiannual interest payments commencing February 2022 through August 2023, 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, 2021, the City issued \$10,145,000 of Temporary Refunding Improvement Bonds Series 2021B, to finance various municipal improvement projects. The bonds bear an interest rate of .60% and call for semiannual interest payments commencing April 2022 through October 2023, 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, 2021, the City issued \$24,540,000 of Refunding Improvement Bonds, Series 2021, to refund the Temporary Refunding Improvement Bonds Series 2020A. The bonds bear an interest rate of 3.00% and call for semiannual interest payments commencing May 2022 and annual principal payments commencing May 1, 2022 through May 2046. 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 of up to \$1,340,000 through the North Dakota Public Financing Authority to finance improvements and expansions to the sewer system. During the year ended December 31, 2021, the City drew an additional \$54,693 on this loan. This loan will be repaid through the debt service fund via special assessments levied against the benefitting properties.

During the year ended December 31, 2021, the City was awarded a loan of up to \$2,740,000 through the North Dakota Public Financing Authority to finance improvements and expansions to the water system. During the year ended December 31, 2021, the City drew \$578,415 on this loan. This loan will be repaid through utility revenues collected in the water fund.



City of Horace, North Dakota

Notes to Financial Statements

December 31, 2021

Outstanding bonded debt and loans as of December 31, 2021, 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	\$ 25,649
2007 Refunding Improvement Bonds	3.75 - 4.50	2022	565,000	40,000
2015 Refunding Improvement Bonds	1.10 - 4.00	2040	3,590,000	2,735,000
2017 Refunding Improvement Bond	1.60 - 4.00	2042	5,875,000	5,500,000
2018 Refunding Improvement Bonds	2.50 - 4.00	2043	450,000	405,000
2018B Refunding Improvement Bonds	2.15 - 4.25	2043	3,885,000	3,605,000
2020B Refunding Improvement Bonds	2.10 - 3.50	2033	20,575,000	20,235,000
2021A Temporary Refunding Improvement Bonds	0.65	2023	9,010,000	9,010,000
2021 Temporary Refunding Improvement Bonds	0.60	2023	10,145,000	10,145,000
2021 Refunding Improvement Bonds	3.00	2046	24,540,000	24,540,000
2016 ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,340,000	772,648
2017 ND Public Finance Authority Drinking Water Loan	2.00	2036	580,000	400,000
2017B ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,728,152	1,186,152
Total				<u>\$ 78,599,449</u>
<u>Business-Type Activities</u>				
2018 ND Public Finance Authority Water Meter Loan	2.00	2028	\$ 422,000	\$ 305,000
2021 ND Public Finance Authority Water Treatment Loan	1.50	2041	\$ 2,740,000	578,415
Total				<u>\$ 883,415</u>

The annual requirements to amortize all bonded debt and loans debt outstanding as of December 31, 2021, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 2,018,140	\$ 2,018,583	\$ 155,000	\$ 35,125
2023	21,173,543	1,838,117	155,000	43,350
2024	2,068,966	1,663,410	160,000	41,025
2025	2,110,000	1,605,916	165,000	38,625
2026	2,170,000	1,546,452	158,415	36,150
2027-2031	11,361,152	6,723,594	90,000	2,025
2032-2036	12,247,648	4,974,147	-	-
2037-2041	13,715,000	2,919,401	-	-
2042-2046	11,735,000	793,738	-	-
Total	<u>\$ 78,599,449</u>	<u>\$ 24,083,358</u>	<u>\$ 883,415</u>	<u>\$ 196,300</u>

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2021

Direct borrowings capital leases payable consist of equipment with a total cost of \$339,252, and total accumulated depreciation of \$42,731 as of December 31, 2021. 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.

Outstanding direct borrowing capital leases payable as of December 31, 2021, is as follows:

	Interest Rate	Final Maturities	Original Principal	Outstanding Balance
<u>Governmental Activities</u>				
Motor Grader	3.85	2027	\$ 199,327	\$ 183,753
Mower	5.01	2024	32,749	19,618
				<u>\$ 203,371</u>

The annual requirements to amortize the direct borrowing capital leases payable outstanding as of December 31, 2021, are as follows:

<u>Years Ending December 31,</u>	Governmental Activities	
	Principal	Interest
2022	\$ 22,407	\$ 8,184
2023	23,355	7,237
2024	24,341	6,251
2025	18,164	5,222
2026	18,875	4,511
2027	96,229	3,771
Total	<u>\$ 203,371</u>	<u>\$ 35,176</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, 2021.

**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, 2021, the notes had an aggregate outstanding balance of \$4,335,219.

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, 2021, the notes had an aggregate outstanding balance of \$1,735,363.

**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, 2021:

	Due From Other Funds	Due To Other Funds
General	\$ 1,398,995	\$ -
Water	-	863,839
Sewer	-	535,156
	<u>\$ 1,398,995</u>	<u>\$ 1,398,995</u>

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2021

A summary of the City's interfund transfers for the year ended December 31, 2021, is as follows:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 3,016,592	\$ 4,168,592
Sales Tax	400,000	400,000
Debt Service	-	413,327
Capital Projects	3,640,327	2,000,000
Total governmental funds	7,056,919	6,981,919
Proprietary Funds		
Water	-	65,000
Sewer	40,000	50,000
Total proprietary funds	40,000	115,000
Total transfers	\$ 7,096,919	\$ 7,096,919

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

During the year ended December 31, 2021, the governmental activities made capital contributions to the water and sewer funds of \$4,020,862 and \$7,212,375, 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 457(b) deferred compensation plan in which the City contributes an amount established by the governing board, currently a percent match of employee contributions, not to exceed 6% of gross salaries for each eligible employee. Employees are eligible for the plan immediately upon hiring and are 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. A deduction is made with each pay period and forwarded to the plan account monthly, which is maintained by Nationwide. 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 December 31, 2021, was \$44,963.

**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, 2021, the City has incurred \$1,724,050 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, 2021.

Project	Ending Balance	Total Expected Cost	Expected Completion
8th Avenue Extension (2017-5)	\$ 7,674	Preliminary*	Preliminary*
County Road 17 Shared Use Path	17,338	100,000	2022
Sanitary Sewer to 64th Ave (2019-4)	91,068	300,000	2022
82nd Street Construction (2020-2)	2,711,402	2,845,339	2022
Oxbow Drainage (2020-5)	23,871	Preliminary*	Preliminary*
Line Replacement Water Impr Dist (2020-6)	1,829,791	4,974,586	2022
Connection to Cass Rural Water Impr Dist (2020-7)	662,564	5,299,431	2022
Terra Gardens 3rd Addition (2021-2)	1,296,079	2,339,877	2022
Lakeview Addition (2021-3)	5,541,554	8,148,971	2022
Arrowwood 3rd Addition (2021-5)	5,335	2,257,088	2023
Lift Station SA-13 Horseshoe Bend (2021-6)	123	892,280	2022
Deer Creek Estates (2021-7)	4,664	Preliminary*	Preliminary*
Lost River 7th Addition (2022-2)	345	3,568,508	2023
Maple Lake Estates Addition - Phase 2 (2022-5)	115	3,844,929	2023
Southdale Farms Fourth Addition (2022-6)	2,958	15,238,732	2023
	<u>\$ 12,194,881</u>		

\*Preliminary indicates projects that are in initial stages and scope of work is unable to be determined at this time

### Note 11 - Restatement

As of January 1, 2021, the City determined that the Capital Projects Fund incorrectly recorded expenditures relating to Water Fund specific construction projects, in the total amount of \$87,874. This has resulted in a restatement of the fund balance of the Capital Projects Fund and construction in progress balance of Governmental Activities, the Water Fund, and Business-Type Activities as of January 1, 2020. The following tables describes the effects of the restatement on beginning fund balance and construction in progress.

				Capital Projects Fund
Fund Balance - December 31, 2020, as previously reported				\$ 10,641,269
Restatement due to:				
Reclassification of project expenses to Water Fund				<u>87,874</u>
Fund Balance - January 1, 2021, as restated				<u>\$ 10,729,143</u>
	Governmental Activities	Water Fund	Business-Type Activities	
Construction in progress - December 31, 2020, as previously reported	\$ 37,911,451	\$ -	\$ -	
Restatement due to:				
Reclassification of construction in progress to Water Fund	<u>(87,874)</u>	<u>87,874</u>	<u>87,874</u>	
Construction in progress - January 1, 2021, as restated	<u>\$ 37,823,577</u>	<u>\$ 87,874</u>	<u>\$ 87,874</u>	

### Note 12 - Subsequent Events

Subsequent to year end, the City issued Temporary Refunding Bonds Series 2022A for \$35,890,000 at an interest rate of 3.88%. The bonds will be used to finance costs of street, water and sewer projects.

Subsequent to year end, the City issued Temporary Refunding Bonds Series 2022B for \$23,700,000 at an interest rate of 4.00%. The bonds will be used to finance costs of street, water and sewer projects.



Supplementary Information  
December 31, 2021

## City of Horace, North Dakota

City of Horace, North Dakota  
Schedule of Expenditures of Federal Awards  
December 31, 2021

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of Environmental Protection Agency Passed through the North Dakota Department of Environmental Quality Drinking Water State Revolving Fund Cluster Capitalization Grants for Drinking Water State Revolving Funds	66.468	Unknown	\$ <u>906,500</u>



**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City.

**Note 2 - Significant Accounting Policies**

Expenditures reported in the schedule are reported on the modified accrual basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

**Note 3 - Indirect Cost Rate**

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.



Additional Reports  
December 31, 2021

## 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 15, 2023.

**Report on 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001, 2021-002, 2021-003, and 2021-004 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City'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**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
February 15, 2023



## **Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

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

### **Report on Compliance for the Major Federal Program**

#### ***Opinion on the Major Federal Program***

We have audited City of Horace, North Dakota (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2021. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

#### ***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal program.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over

compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-005 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

Fargo, North Dakota  
February 15, 2023

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**Section I – Summary of Auditor’s Results**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No



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**Section II – Financial Statement Findings**

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**2021-001      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 does not have enough staff to adequately separate duties in cash receipts, cash disbursements, payroll and related liabilities, and general ledger maintenance and reconciliation.

*Cause* – There is a limited amount of office employees involved in the internal control process.

*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.

**2021-002      Material Journal Entries, including Restatement  
Material Weakness**

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

*Condition* – During the course of our engagement, we proposed numerous audit adjustments, including restatement, 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.

**2021-003      Preparation of Financial Statements including Schedule of Expenditures of Federal Awards  
Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for internally preparing the City’s financial statements and schedule of federal awards (“SEFA”).

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

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

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

*Recommendation* – 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.

**2021-004      Account Reconciliation Differences**  
**Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for correcting all differences noted between the trial balance and subledgers or supporting schedules.

*Condition* – During the course of our engagement, we identified differences in account reconciliations that would not have been identified as a result of the City's existing internal controls.

*Cause* – The City does not have an internal control system designed to identify accurately reconcile all accounts.

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

*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 supervisor levels.

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

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Section III – Federal Award Findings and Questioned Costs

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**2021-005      Department of Environmental Protection Agency, Passed through North Dakota Department of Environmental Quality  
Federal Financial Assistance Listing/CFDA Number 66.468  
Drinking Water State Revolving Fund Cluster**

**Procurement, Suspension, and Debarment  
Material Weakness in Internal Control over Compliance**

*Criteria* – Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required.

*Condition* – During the course of our engagement, it was identified that the City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326.

*Cause* – Lack of oversight, awareness, or understanding of all of the specific requirements under the Uniform Guidance and applicable CFR sections and controls were not adequately designed to ensure compliance with all of these requirements.

*Effect* – A lack of documented policies increase the overall risk that employees are not aware of the specific requirements with of procurement, suspension, and debarment.

*Questioned Costs* – None reported

*Context/Sampling* – All applicable vendors were selected for testing.

*Repeat Finding from Prior Year(s)* – No

*Recommendation* – We recommend that management establish a written policy that addresses all of the procurement requirements for federal programs as identified in 2 CFR sections 200.318 through 200.326 and maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

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



Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings and  
Corrective Action Plan  
December 31, 2021

Prepared by Management of  
  
City of Horace



## Summary Schedule of Prior Audit Findings

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

*Initial Fiscal Year Finding Occurred:* Unknown, finding prior to 2006

*Finding Summary:* To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be segregation of the functions of approval, custody of assets, posting, and reconciling.

*Status:* Ongoing. See finding 2021-001

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

*Initial Fiscal Year Finding Occurred:* 2017

*Finding Summary:* During the course of the engagement, numerous material audit adjustments were proposed by Eide Bailly LLP.

*Status:* Ongoing. See finding 2021-002

**Finding 2020-003      Preparation of Financial Statements  
Material Weakness**

*Initial Fiscal Year Finding Occurred:* Unknown, finding prior to 2006

*Finding Summary:* The auditor assists management in preparing financial statements that are presented, including note disclosures.

*Status:* Ongoing. See finding 2021-003



## Corrective Action Plans

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### **Finding 2021-001    Segregation of Duties Material Weakness**

*Finding Summary:* Eide Bailly LLP notes there are a limited number of positions within the City, which prevents a proper segregation of duties.

*Responsible Individuals:* Brenton Holper, City Administrator

*Corrective Action Plan:* The City feels that the costs for hiring additional staff would not be significantly beneficial. The City does currently mitigate this situation through the Council's review of the financial statements, accompanying notes and review and approval of the monthly expenses. The City will continue to look for further opportunities to segregate duties.

*Anticipated Completion Date:* Ongoing.

### **Finding 2021-002    Material Journal Entries, including Restatement Material Weakness**

*Finding Summary:* During the course of the engagement numerous material audit adjustments, including restatement, were proposed by Eide Bailly LLP. These would not have been identified because of our existing internal controls and, therefore, could have resulted in a material misstatement of our financial statements.

*Responsible Individuals:* Brenton Holper, City Administrator

*Corrective Action Plan:* A thorough review and reconciliation of accounts in each fund will take place prior to the beginning of the audit. The City has established an internal control policy to document the monthly review of the financial statements and expenses by the City Council.

*Anticipated Completion Date:* Ongoing.



Corrective Action Plans (continued)

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**Finding 2021-003      Preparation of Financial Statements, including Schedule of Expenditures of Federal Awards  
Material Weakness**

*Finding Summary:*                      Eide Bailly LLP prepared our draft financial statements, schedule of expenditures of federal awards (SEFA), and accompanying notes to the financial statements.

*Responsible Individuals:*              Brenton Holper, City Administrator

*Corrective Action Plan:*                It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements, SEFA and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepared the financial statements, SEFA, and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements, SEFA, and accompanying notes.

*Anticipated Completion Date:*      Ongoing.

**Finding 2021-004      Account Reconciliation Differences  
Material Weakness**

*Finding Summary:*                      During the course of the engagement, Eide Bailly LLP identified differences in account reconciliations that would not have been identified because of the City's existing internal controls.

*Responsible Individuals:*              Brenton Holper, City Administrator

*Corrective Action Plan:*                A thorough review and reconciliation of accounts in each fund will take place prior to the beginning of the audit. The review will be done at both the accounting staff and supervisor levels.

*Anticipated Completion Date:*      December 31, 2022.





Corrective Action Plans (continued)

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**Finding 2021-005**    **Department of Environment Protection Agency, Passed through North Dakota  
Department of Environmental Quality  
Federal Financial Assistance Listing/CFDA Number 66.468  
Drinking Water State Revolving Fund Cluster**

**Procurement, Suspension, and Debarment  
Material Weakness in Internal Control over Compliance**

*Finding Summary:*                      During the course of the engagement, Eide Bailly LLP identified that the City does not have a written policy on procurement that satisfies the requirements of 2 CFR sections 200.318 through 200.326.

*Responsible Individuals:*              Brenton Holper, City Administrator

*Corrective Action Plan:*                The City will establish a written policy that addresses all the procurement requirements for federal programs as identified in 2 CFR sections 200.318 through 200.326 and maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

*Anticipated Completion Date:*      December 31, 2022.