



Financial Statements
December 31, 2022

City of Horace, North Dakota

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City of Horace, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2022

<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Kory Peterson	Mayor	6/30/2024
Naomi Burkland	City Commissioner	6/30/2024
Stephanie Landstrom	City Commissioner	6/30/2026
Jeffrey Trudeau	City Commissioner	6/30/2024
Sarah Veit	City Commissioner	6/30/2026
<u>Administration</u>		
Brent Hopler	City Administrator	
Matt Voltz	Finance Director	



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, 2022, 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, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund, highway fund, and sales tax fund, for 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.

Adoption of New Accounting Standard

As discussed in Notes 1 and 12 to the financial statements, the City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended December 31, 2022. Accordingly, a restatement has been made to the governmental activities net position as of January 1, 2022, to restate beginning net position. Our opinions are not modified with respect to this 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 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.

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 January 19, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Fargo, North Dakota
January 19, 2024

City of Horace, North Dakota
Statement of Net Position
December 31, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 55,115,849	\$ 35,053	\$ 55,150,902
Receivables			
Accounts	11,753	174,095	185,848
Property taxes	14,295	-	14,295
Special assessments	55,347,980	-	55,347,980
Due from other governmental units	412,563	1,577,622	1,990,185
Interfund balances	1,171,341	(1,171,341)	-
Capital assets			
Land	1,882,889	-	1,882,889
Construction in progress	36,309,199	5,074,697	41,383,896
Infrastructure	50,335,067	21,072,016	71,407,083
Buildings and improvements	279,086	-	279,086
Machinery and equipment	722,725	18,660	741,385
Vehicles	353,801	-	353,801
Right-to-use leased assets	295,966	-	295,966
Less accumulated depreciation/amortization	(4,352,031)	(1,975,702)	(6,327,733)
Total assets	<u>197,900,483</u>	<u>24,805,100</u>	<u>222,705,583</u>
Liabilities			
Accounts payable	4,305,834	123,024	4,428,858
Retainage payable	1,247,292	-	1,247,292
Accrued interest payable	304,997	7,303	312,300
Other liabilities	60,648	271,160	331,808
Unearned revenue	465,472	-	465,472
Long-term liabilities			
Due within one year	21,354,650	166,780	21,521,430
Due in more than one year	116,220,595	1,305,589	117,526,184
Total liabilities	<u>143,959,488</u>	<u>1,873,856</u>	<u>145,833,344</u>
Net Position			
Net investment in capital assets	(10,241,847)	22,717,302	12,475,455
Restricted	50,598,346	-	50,598,346
Unrestricted	13,584,496	213,942	13,798,438
Total net position	<u>\$ 53,940,995</u>	<u>\$ 22,931,244</u>	<u>\$ 76,872,239</u>

City of Horace, North Dakota

Statement of Activities

Year Ended December 31, 2022

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	\$ 6,887,580	\$ 1,171,399	\$ -	\$ -	\$ (5,716,181)	\$ -	\$ (5,716,181)
Public safety	-	4,758	-	-	4,758	-	4,758
Public works	197,297	62,173	-	-	(135,124)	-	(135,124)
Total governmental activities	<u>7,084,877</u>	<u>1,238,330</u>	<u>-</u>	<u>-</u>	<u>(5,846,547)</u>	<u>-</u>	<u>(5,846,547)</u>
Business-type activities							
Water	444,025	448,329	-	2,151,653	-	2,155,957	2,155,957
Sewer	715,231	591,009	-	-	-	(124,222)	(124,222)
Garbage	386,182	397,804	-	-	-	11,622	11,622
Total business-type activities	<u>1,545,438</u>	<u>1,437,142</u>	<u>-</u>	<u>2,151,653</u>	<u>-</u>	<u>2,043,357</u>	<u>2,043,357</u>
Total Government	<u>\$ 8,630,315</u>	<u>\$ 2,675,472</u>	<u>\$ -</u>	<u>\$ 2,151,653</u>	<u>(5,846,547)</u>	<u>2,043,357</u>	<u>(3,803,190)</u>
General revenues							
Property taxes					1,207,155	-	1,207,155
Special assessments					2,608,501	-	2,608,501
Sales tax					1,660,145	-	1,660,145
Franchise fees					105,022	-	105,022
State aid					974,684	-	974,684
Investment earnings					262,738	-	262,738
Miscellaneous					200,687	-	200,687
Transfers and capital contributions					(1,246,264)	1,246,264	-
Total general revenue, transfers, and capital contributions					<u>5,772,668</u>	<u>1,246,264</u>	<u>7,018,932</u>
Change in net position					(73,879)	3,289,621	3,215,742
Net position - beginning, as restated (Note 12)					<u>54,014,874</u>	<u>19,641,623</u>	<u>73,656,497</u>
Net position - ending					<u>\$ 53,940,995</u>	<u>\$ 22,931,244</u>	<u>\$ 76,872,239</u>

City of Horace, North Dakota
Governmental Funds
Balance Sheet
December 31, 2022

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,633,833	\$ 192,555	\$ 3,059,445	\$ 8,782,295	\$ 41,447,721	\$ 55,115,849
Due from other funds	1,171,341	-	-	-	-	1,171,341
Receivables						
Accounts	11,753	-	-	-	-	11,753
Property taxes	14,295	-	-	-	-	14,295
Special assessments	-	-	-	55,347,980	-	55,347,980
Due from other governmental units	55,543	29,854	327,166	-	-	412,563
Total assets	\$ 2,886,765	\$ 222,409	\$ 3,386,611	\$ 64,130,275	\$ 41,447,721	\$ 112,073,781
Liabilities						
Accounts payable	\$ 577,964	\$ 45,844	\$ 139,508	\$ 39,535	\$ 3,502,983	\$ 4,305,834
Retainage payable	-	-	-	-	1,247,292	1,247,292
Other liabilities	50,464	10,184	-	-	-	60,648
Unearned revenue	-	-	-	-	465,472	465,472
Total liabilities	628,428	56,028	139,508	39,535	5,215,747	6,079,246
Deferred Inflows of Resources						
Unavailable revenue-property taxes	14,295	-	-	-	-	14,295
Unavailable revenue-special assessments	-	-	-	53,137,852	-	53,137,852
Total deferred inflows of resources	14,295	-	-	53,137,852	-	53,152,147
Fund Balance						
Restricted for						
Parks dedication	725,507	-	-	-	-	725,507
Highway maintenance	-	166,381	-	-	-	166,381
Sales tax	-	-	3,247,103	-	-	3,247,103
Debt service	-	-	-	10,952,888	-	10,952,888
Capital projects	-	-	-	-	36,231,974	36,231,974
Unassigned	1,518,535	-	-	-	-	1,518,535
Total fund balance	2,244,042	166,381	3,247,103	10,952,888	36,231,974	52,842,388
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,886,765	\$ 222,409	\$ 3,386,611	\$ 64,130,275	\$ 41,447,721	\$ 112,073,781

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

City of Horace, North Dakota
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
December 31, 2022

Total Fund Balances – Governmental Funds	\$ 52,842,388
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.	85,826,702
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.	53,152,147
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	(55,282,509)
Temporary improvement bonds	(78,745,000)
State revolving loans	(2,156,332)
Bond premiums	(1,108,873)
Leases payable	(223,556)
Compensated absences	(58,975)
Accrued interest	(304,997)
	<hr/>
Total Net Position – Governmental Activities	<u><u>\$ 53,940,995</u></u>

City of Horace, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2022

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Revenues						
General property taxes	\$ 1,223,060	\$ -	\$ -	\$ -	\$ -	\$ 1,223,060
Special assessments	-	-	-	5,585,437	-	5,585,437
Licenses and permits	867,851	-	-	-	-	867,851
Intergovernmental	303,969	154,810	-	-	500,000	958,779
Charges for services	61,623	-	-	-	-	61,623
Fines and forfeitures	5,308	-	-	-	-	5,308
Sales tax	-	-	1,660,145	-	-	1,660,145
Investment earnings	106,407	-	-	6,510	149,821	262,738
Miscellaneous	677,924	-	-	-	-	677,924
Total revenues	<u>3,246,142</u>	<u>154,810</u>	<u>1,660,145</u>	<u>5,591,947</u>	<u>649,821</u>	<u>11,302,865</u>
Expenditures						
Current						
General government	1,892,293	-	-	-	-	1,892,293
Public works	-	371,559	-	-	-	371,559
General government - other	418,480	-	-	60,799	908,857	1,388,136
Capital outlay	19,082	28,144	535,157	-	29,802,592	30,384,975
Debt service						
Principal	72,410	-	-	2,005,608	-	2,078,018
Interest and fees	9,256	-	-	2,606,032	-	2,615,288
Total expenditures	<u>2,411,521</u>	<u>399,703</u>	<u>535,157</u>	<u>4,672,439</u>	<u>30,711,449</u>	<u>38,730,269</u>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	834,621	(244,893)	1,124,988	919,508	(30,061,628)	(27,427,404)
Other Financing Sources (Uses)						
Lease proceeds	19,082	-	-	-	-	19,082
Bond proceeds	-	-	-	4,223,389	55,366,611	59,590,000
Transfers in	425,000	128,500	-	-	-	553,500
Transfers out	(553,500)	-	-	-	-	(553,500)
Total other financing sources (uses)	<u>(109,418)</u>	<u>128,500</u>	<u>-</u>	<u>4,223,389</u>	<u>55,366,611</u>	<u>59,609,082</u>
Net Change in Fund Balance	725,203	(116,393)	1,124,988	5,142,897	25,304,983	32,181,678
Fund Balance, Beginning	<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>
Fund Balance, Ending	<u>\$ 2,244,042</u>	<u>\$ 166,381</u>	<u>\$ 3,247,103</u>	<u>\$ 10,952,888</u>	<u>\$ 36,231,974</u>	<u>\$ 52,842,388</u>

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

City of Horace, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended December 31, 2022

Net Change in Fund Balances - Total Governmental Funds	\$ 32,181,678
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/amortization expense. In the current period these amounts are:	
Capital outlay	30,853,959
Depreciation/amortization expense	(1,374,114)
The net effect of the disposal of capital assets is to decrease net position	(68,667)
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	(1,246,264)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	(2,976,936)
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	(33,854)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	73,890
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	(59,590,000)
Leases issued	(19,082)
Lease retirement	72,410
Bond retirement	2,053,101
Change in Net Position of Governmental Activities	<u>\$ (73,879)</u>

City of Horace, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2022

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
Revenues				
General property taxes	\$ 1,281,518	\$ 1,286,518	\$ 1,223,060	\$ (63,458)
Licenses and permits	128,450	881,945	867,851	(14,094)
Intergovernmental	237,500	287,500	303,969	16,469
Charges for services	58,050	58,050	61,623	3,573
Fines and forfeitures	1,000	4,000	5,308	1,308
Investment earnings	20,000	100,000	106,407	6,407
Miscellaneous	70,000	35,000	677,924	642,924
Total revenues	1,796,518	2,653,013	3,246,142	593,129
Expenditures				
Current				
General government	1,939,068	2,034,643	1,892,293	142,350
General government - other	54,050	48,000	418,480	(370,480)
Capital outlay	-	-	19,082	(19,082)
Debt service				
Principal	-	-	72,410	(72,410)
Interest and fees	-	-	9,256	(9,256)
Total expenditures	1,993,118	2,082,643	2,411,521	(328,878)
Excess (Deficiency) of Revenues over (under) Expenditures	(196,600)	570,370	834,621	264,251
Other Financing Sources (Uses)				
Lease proceeds	-	-	19,082	19,082
Transfers in	39,000	354,000	425,000	71,000
Transfers out	(167,500)	(482,500)	(553,500)	(71,000)
Total other financing sources (uses)	(128,500)	(128,500)	(109,418)	19,082
Net Change in Fund Balance	\$ (325,100)	\$ 441,870	725,203	\$ 283,333
Fund Balance, Beginning			1,518,839	
Fund Balance, Ending			\$ 2,244,042	

City of Horace, North Dakota

Highway Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental	<u>\$ 145,000</u>	<u>\$ 145,000</u>	<u>\$ 154,810</u>	<u>\$ 9,810</u>
Expenditures				
Current				
Public works	247,500	389,150	371,559	17,591
Capital outlay	<u>30,000</u>	<u>27,500</u>	<u>28,144</u>	<u>(644)</u>
Total expenditures	<u>277,500</u>	<u>416,650</u>	<u>399,703</u>	<u>16,947</u>
Deficiency of Revenues under Expenditures	(132,500)	(271,650)	(244,893)	(7,137)
Other Financing Sources				
Transfers in	<u>128,500</u>	<u>128,500</u>	<u>128,500</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (4,000)</u>	<u>\$ (143,150)</u>	(116,393)	<u>\$ (7,137)</u>
Fund Balance, Beginning			<u>282,774</u>	
Fund Balance, Ending			<u>\$ 166,381</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, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Sales Tax	<u>\$ 650,000</u>	<u>\$ 650,000</u>	<u>\$ 1,660,145</u>	<u>\$ 1,010,145</u>
Expenditures				
Capital outlay	<u>650,000</u>	<u>650,000</u>	<u>535,157</u>	<u>114,843</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,124,988</u>	<u>\$ 1,124,988</u>
Fund Balance, Beginning			<u>2,122,115</u>	
Fund Balance, Ending			<u>\$ 3,247,103</u>	

City of Horace, North Dakota

Proprietary Funds
Statement of Net Position
December 31, 2022

	Water	Sewer	Garbage	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 35,053	\$ 35,053
Accounts receivable	48,474	56,983	68,638	174,095
Due from other governmental units	1,577,622	-	-	1,577,622
Total current assets	1,626,096	56,983	103,691	1,786,770
Capital assets				
Construction in progress	5,074,697	-	-	5,074,697
Machinery and equipment	18,660	-	-	18,660
Infrastructure	6,533,388	14,538,628	-	21,072,016
Less accumulated depreciation	(694,501)	(1,281,201)	-	(1,975,702)
Net capital assets	10,932,244	13,257,427	-	24,189,671
Total assets	12,558,340	13,314,410	103,691	25,976,441
Liabilities				
Current liabilities				
Accounts payable	118,932	4,092	-	123,024
Accrued interest payable	7,303	-	-	7,303
Retainage payable	260,976	-	-	260,976
Due to other funds	800,925	370,416	-	1,171,341
Other liabilities	6,110	4,074	-	10,184
Current maturities of long-term debt	162,068	4,712	-	166,780
Total current liabilities	1,356,314	383,294	-	1,739,608
Long-term debt (net of current portion)				
Bonds payable	1,305,589	-	-	1,305,589
Total liabilities	2,661,903	383,294	-	3,045,197
Net Position				
Net investment in capital assets	9,464,587	13,252,715	-	22,717,302
Unrestricted	431,850	(321,599)	103,691	213,942
Total net position	\$ 9,896,437	\$ 12,931,116	\$ 103,691	\$ 22,931,244

City of Horace, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	Water	Sewer	Garbage	Total
Operating Revenues				
Utility sales and service charges	\$ 448,329	\$ 591,009	\$ 397,804	\$ 1,437,142
Operating Expenses				
Salaries	142,356	94,823	-	237,179
Utilities	11,794	47,612	-	59,406
Repairs and maintenance	54,373	129,124	-	183,497
Contracted services	3,919	33,565	386,182	423,666
Miscellaneous	45,387	106,980	-	152,367
Depreciation	164,454	303,127	-	467,581
Total operating expenses	422,283	715,231	386,182	1,523,696
Operating Income (Loss)	26,046	(124,222)	11,622	(86,554)
Nonoperating Revenues (Expenses)				
State grant revenue	2,151,653	-	-	2,151,653
Interest on long-term debt	(21,742)	-	-	(21,742)
Total nonoperating revenues (expenses)	2,129,911	-	-	2,129,911
Income (Loss) before Capital Contributions	2,155,957	(124,222)	11,622	2,043,357
Capital Contributions	492,574	753,690	-	1,246,264
Change in Net Position	2,648,531	629,468	11,622	3,289,621
Net Position, Beginning of Year	7,247,906	12,301,648	92,069	19,641,623
Net Position, End of Year	\$ 9,896,437	\$ 12,931,116	\$ 103,691	\$ 22,931,244

City of Horace, North Dakota

Proprietary Funds

Statement of Cash Flows

Year Ended December 31, 2022

	Water	Sewer	Garbage	Total
Operating Activities				
Receipts from customers and users	\$ 442,251	\$ 574,125	\$ 378,276	\$ 1,394,652
Payments to employees	(137,519)	(91,596)	-	(229,115)
Payments to vendors	(371,567)	(317,789)	(386,232)	(1,075,588)
Net cash from (used for) operating activities	(66,835)	164,740	(7,956)	89,949
Non-Capital Financing Activity				
Change in interfund balances	(62,914)	(164,740)	-	(227,654)
Capital and Related Financing Activities				
Property and equipment additions	(2,582,341)	-	-	(2,582,341)
Proceeds from grant revenue	2,151,653	-	-	2,151,653
Proceeds from long-term debt	732,174	-	-	732,174
Payments on long-term debt				
Principal	(155,000)	-	-	(155,000)
Interest	(16,737)	-	-	(16,737)
Net cash from capital and related financing activities	129,749	-	-	129,749
Change in Cash and Cash Equivalents	-	-	(7,956)	(7,956)
Cash and Cash Equivalents - Beginning of Year	-	-	43,009	43,009
Cash and Cash Equivalents - End of Year	\$ -	\$ -	\$ 35,053	\$ 35,053
	Water	Sewer	Garbage	Total
Reconciliation of Operating Income (Loss) to Net Cash From (Used For) Operating Activities				
Operating income (loss)	\$ 26,046	\$ (124,222)	\$ 11,622	\$ (86,554)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities				
Depreciation	164,454	303,127	-	467,581
Changes in assets and liabilities				
Accounts receivable	(6,078)	(16,884)	(19,528)	(42,490)
Due from other governmental units	(343,514)	-	-	(343,514)
Accounts payable	40,212	(508)	(50)	39,654
Customer deposits	47,208	-	-	47,208
Other liabilities	1,643	1,098	-	2,741
Compensated absences payable	3,194	2,129	-	5,323
Net cash from (used for) operating activities	\$ (66,835)	\$ 164,740	\$ (7,956)	\$ 89,949
Schedule of Non-Cash Capital and Related Financing Activities				
Capital contributions	\$ 492,574	\$ 753,690	\$ -	\$ 1,246,264
Purchase of capital assets in retainage payable	\$ 260,976	\$ -	\$ -	\$ -

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, highway, and sales tax funds. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgetary comparisons presented in this report are on this budgetary basis.

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

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

All unexpended appropriations lapse at year-end.

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

Cash and Cash Equivalents

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

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

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

Receivable and Credit Policy

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

Capital Assets

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

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

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

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

Right to use leased assets are recognized at the lease commencement date and represent the City's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any indirect costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 7 years.

Compensated Absences

All full-time, regular employees accrue vacation leave each month based on the duration of employment with the City. Employees are allowed to carry over a maximum of 280 hours into the following calendar years. Accrued vacation hours exceeding 280 hours on December 31 of each year will be forfeited. Upon termination, employees are paid for accrued but unused vacation.

Accumulated unpaid vested vacation leave is accrued when incurred in the government-wide statements and proprietary fund 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.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the City.

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, 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 City has only one type of item that qualifies for reporting in this category, 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.

Unearned Revenue

Governmental funds also report unearned revenue in connection with grant resources that have been received, but not yet earned, as corresponding expenditures have not been incurred.

Implementation of GASB Statement No. 87

As of January 1, 2022, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 12 and the additional disclosures required by this standard is included in Notes 5 and 7.

Note 2 - Deposits and Investments**Deposits**

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

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

As of December 31, 2022, the City's deposits include checking accounts and money market funds.

Concentrations of Credit Risk

The City maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank for each account ownership category. At December 31, 2022, the City had approximately \$3,300,000 in excess of FDIC insured limits that were appropriately collateralized.

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, 2022.

Custodial Credit Risk - Investments

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.

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 - Investments

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.

The following table presents the City's deposit balances at December 31, 2022:

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and Cash Equivalents			
Deposits	\$ 51,556,415	\$ 51,556,415	\$ -
Money market	3,594,487	3,594,487	-
	<u>\$ 55,150,902</u>	<u>\$ 55,150,902</u>	<u>\$ -</u>

Note 3 - 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 4 - 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, 2022:

Tax Abatement Program

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

\$ 98,239

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2022 was as follows:

Governmental Activities	Balance (as restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized				
Land	\$ 1,882,889	\$ -	\$ -	\$ 1,882,889
Construction in progress	9,702,525	30,411,630	3,804,956	36,309,199
Total capital assets not being depreciated/amortized	<u>11,585,414</u>	<u>30,411,630</u>	<u>3,804,956</u>	<u>38,192,088</u>
Capital assets, being depreciated/amortized				
Infrastructure	47,776,375	2,558,692	-	50,335,067
Buildings and improvements	279,086	-	-	279,086
Machinery and equipment	479,170	352,616	109,061	722,725
Vehicles	283,170	70,631	-	353,801
Right-to-use leased assets	276,884	19,082	-	295,966
Total capital assets being depreciated/amortized	<u>49,094,685</u>	<u>3,001,021</u>	<u>109,061</u>	<u>51,986,645</u>
Less accumulated depreciation/amortization for				
Infrastructure	2,533,645	1,198,225	-	3,731,870
Buildings and improvements	106,068	26,598	-	132,666
Machinery and equipment	254,491	38,418	40,394	252,515
Vehicles	124,107	23,338	-	147,445
Right-to-use leased assets	-	87,535	-	87,535
Total accumulated depreciation/amortization	<u>3,018,311</u>	<u>1,374,114</u>	<u>40,394</u>	<u>4,352,031</u>
Total capital assets being depreciated/amortized, net	<u>46,076,374</u>	<u>1,626,907</u>	<u>68,667</u>	<u>47,634,614</u>
Governmental activities capital assets, net	<u>\$ 57,661,788</u>	<u>\$ 32,038,537</u>	<u>\$ 3,873,623</u>	<u>\$ 85,826,702</u>

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2022

Business-Type Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ 2,492,356	\$ 2,582,341	\$ -	\$ 5,074,697
Capital assets, being depreciated				
Machinery and equipment	18,660	-	-	18,660
Infrastructure	19,825,752	1,246,264	-	21,072,016
Total capital assets being depreciated	19,844,412	1,246,264	-	21,090,676
Less accumulated depreciation for				
Machinery and equipment	4,270	1,867	-	6,137
Infrastructure	1,503,851	465,714	-	1,969,565
Total accumulated depreciation	1,508,121	467,581	-	1,975,702
Total capital assets being depreciated, net	18,336,291	778,683	-	19,114,974
Business-type activities capital assets, net	\$ 20,828,647	\$ 3,361,024	\$ -	\$ 24,189,671

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

Governmental Activities	
General government	\$ 1,374,114
Business-Type Activities	
Water	\$ 164,454
Sewer	303,127
Total depreciation expense - business-type activities	\$ 467,581

Note 6 - 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, 2022:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Special Assessment Bonds	\$ 57,085,649	\$ -	\$ 1,803,140	\$ 55,282,509	\$ 1,793,543
Temporary Refunding Improvement Bonds	19,155,000	59,590,000	-	78,745,000	19,155,000
State Revolving Fund Loans	2,358,800	-	202,468	2,156,332	225,000
Unamortized Premium on Bond Issuance	1,156,366	-	47,493	1,108,873	47,493
Leases	276,884	19,082	72,410	223,556	74,639
Compensated absences	25,121	65,774	31,920	58,975	58,975
	<u>\$ 80,057,820</u>	<u>\$ 59,674,856</u>	<u>\$ 2,157,431</u>	<u>\$ 137,575,245</u>	<u>\$ 21,354,650</u>
Governmental activity long-term debt	<u>\$ 80,057,820</u>	<u>\$ 59,674,856</u>	<u>\$ 2,157,431</u>	<u>\$ 137,575,245</u>	<u>\$ 21,354,650</u>
Business-Type Activities					
State Revolving Fund Loans	\$ 883,415	\$ 732,174	\$ 155,000	\$ 1,460,589	\$ 155,000
Compensated absences	6,457	9,782	4,459	11,780	11,780
	<u>\$ 889,872</u>	<u>\$ 741,956</u>	<u>\$ 159,459</u>	<u>\$ 1,472,369</u>	<u>\$ 166,780</u>
Business-type activity long-term debt	<u>\$ 889,872</u>	<u>\$ 741,956</u>	<u>\$ 159,459</u>	<u>\$ 1,472,369</u>	<u>\$ 166,780</u>

During the year ended December 31, 2022, the City issued \$35,890,000 of Temporary Refunding Improvement Bonds Series 2022A, to finance various municipal improvement projects. The bonds bear an interest rate of 3.25% and call for semiannual interest payments commencing February 2023 through August 2024, 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, 2022, the City issued \$23,700,000 of Temporary Refunding Improvement Bonds Series 2022B, to finance various municipal improvement projects. The bonds bear an interest rate of 4.00% and call for semiannual interest payments commencing July 2023 through January 2025, 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.

In prior years, 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, 2022, the City drew an additional \$732,174 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, 2022

Outstanding bonded debt and loans as of December 31, 2022, 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	\$ 17,509
2015 Refunding Improvement Bonds	1.10 - 4.00	2040	3,590,000	2,575,000
2017 Refunding Improvement Bond	1.60 - 4.00	2042	5,875,000	5,305,000
2018 Refunding Improvement Bonds	2.50 - 4.00	2043	450,000	390,000
2018B Refunding Improvement Bonds	2.15 - 4.25	2043	3,885,000	3,490,000
2020B Refunding Improvement Bonds	2.10 - 3.50	2033	20,575,000	19,640,000
2021A Temporary Refunding Improvement Bonds	0.65	2023	9,010,000	9,010,000
2021 Temporary Refunding Improvement Bonds	0.6	2023	10,145,000	10,145,000
2021 Refunding Improvement Bonds	3.00	2046	24,540,000	23,865,000
2022A Temporary Refunding Improvement Bonds	3.25	2024	35,890,000	35,890,000
2022B Temporary Refunding Improvement Bonds	4.00	2025	23,700,000	23,700,000
2016 ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,340,000	730,180
2017 ND Public Finance Authority Drinking Water Loan	2.00	2036	580,000	380,000
2017B ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,728,152	1,046,152
Total				<u>\$ 136,183,841</u>
<u>Business-Type Activities</u>				
2018 ND Public Finance Authority Water Meter Loan	2.00	2028	\$ 422,000	\$ 265,000
2021 ND Public Finance Authority Water Treatment Loan	1.50	2041	2,740,000	1,195,589
Total				<u>\$ 1,460,589</u>

The annual requirements to amortize all bonded debt and loans debt outstanding as of December 31, 2022, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 21,173,543	\$ 3,473,082	\$ 155,000	\$ 43,350
2024	37,958,966	3,777,835	160,000	41,025
2025	25,810,000	1,605,916	165,000	38,625
2026	2,170,000	1,546,452	165,000	36,150
2027	2,220,000	1,480,578	170,000	33,675
2028-2032	11,300,000	6,381,429	645,589	111,000
2033-2037	12,736,332	4,599,648	-	-
2038-2042	13,965,000	2,477,879	-	-
2043-2046	8,850,000	478,325	-	-
Total	<u>\$ 136,183,841</u>	<u>\$ 25,821,144</u>	<u>\$ 1,460,589</u>	<u>\$ 303,825</u>

Leases Payable

Leases payable consists of long-term lease agreements as described in Note 7. Payments are made from the general fund.

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, 2022, the notes had an aggregate outstanding balance of \$4,020,489.

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, 2022, the notes had an aggregate outstanding balance of \$1,521,821.

Note 7 - Lease Payable

The City has entered into various lease agreements as lessee for the acquisition and use of various vehicles, office equipment, and building space. An initial lease liability was recorded in the amount of \$276,884 upon implementation of GASB Statement No. 87 at January 1, 2022. The City is required to make principal and interest payments and have varying interest rates of 2.50% - 5.01%. Useful lives range from 3 to 7 years. During the year ended December 31, 2022, the City recorded interest expense of \$9,256 related to the leases.

The future principal and interest lease payments as of December 31, 2022, were as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 74,639	\$ 7,027
2024	67,042	4,724
2025	59,355	2,609
2026	<u>22,520</u>	<u>867</u>
Total	<u>\$ 223,556</u>	<u>\$ 15,227</u>

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, 2022:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 1,171,341	\$ -
Water	-	800,925
Sewer	<u>-</u>	<u>370,416</u>
	<u>\$ 1,171,341</u>	<u>\$ 1,171,341</u>

A summary of the City's interfund transfers for the year ended December 31, 2022, is as follows:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 425,000	\$ 553,500
Highway	128,500	-
	<u>\$ 553,500</u>	<u>\$ 553,500</u>
Total transfers	<u>\$ 553,500</u>	<u>\$ 553,500</u>

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

During the year ended December 31, 2022, the governmental activities made capital contributions to the water and sewer funds of \$492,574 and \$753,690, 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 years ended December 31, 2022, 2021, and 2020, were \$58,456, \$44,963, and \$13,921, respectively. There is no liability as of December 31, 2022 related to this plan.

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, 2022, the City has incurred \$5,449,861 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. As of December 31, 2022, the City has completed \$617,278 of projects costs relating to the agreement.

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2022

Construction Commitments – The City has the following active construction projects as of December 31, 2022.

Project	Ending Balance	Total Expected Cost	Expected Completion
8th Avenue Extension (2017-5)	\$ 7,674	Preliminary*	Preliminary*
Sanitary Sewer to 64th Ave (2019-4) Horseshoe Bend	105,526	300,000	2023
Oxbow Drainage (2020-5)	23,871	Preliminary*	Preliminary*
Line Replacement Water Impr Dist (2020-6)	4,150,835	4,974,586	2023
Connection to Cass Rural Water Impr Dist (2020-7)	923,862	5,299,431	2023
Southdale Farms 3rd Addition	164,687	165,000	2023
Terra Gardens 3rd Addition (2021-2)	1,848,956	2,339,877	2023
Lakeview Addition (2021-3)	8,176,407	8,148,971	2023
Lift Station SA-14 (2021-4)	719,605	742,000	2023
Arrowwood 3rd Addition (2021-5)	689,774	2,257,088	2023
Lift Station SA-13 Horseshoe Bend (2021-6)	737,844	892,280	2023
Deer Creek Estates (2021-7)	19,807	Preliminary*	Preliminary*
Visto Industrial Additions (2022-1)	2,398,782	3,760,000	2023
Lost River 7th Addition (2022-2)	3,111,098	3,568,508	2023
Wall Ave East (2022-3)	50,543	5,125,000	2023
Wall Ave West (2022-4)	66,066	9,225,000	2023
Maple Lake Estates Addition - Phase 2 (2022-5)	1,560,141	3,844,929	2023
Southdale Farms Fourth Addition (2022-6)	12,955,981	15,238,732	2023
Southdale Farms Fifth Addition (2022-7)	1,052,028	2,685,000	2023
66th St (2022-8)	475,952	9,835,000	2023
63rd St (2022-9)	55,546	5,225,000	2024
Chestnut/Ironwood (2022-10)	30,019	1,835,000	2023
Cub Creek Second Addition (2022-11)	1,870,413	23,700,000	2024
Rivers Edge Second Addition (2022-12)	22,898	25,000,000	2024
Altenburg Acres Second Addition (2022-13)	5,981	Preliminary*	Preliminary*
County Road 17 Shared Use Path	159,600	100,000	2023

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

Note 11 - 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 \$328,878 for the year ended December 31, 2022. These over expenditures were funded by greater than expected revenues and existing fund balance of the General Fund.

Note 12 - Adoption of New Standard

As of January 1, 2022, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases or direct borrowings. Beginning net position of governmental activities was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Governmental Activities
Net Position at December 31, 2021, as Previously Reported	\$ 54,088,387
Add right-to-use assets under GASB Statement No. 87 at January 1, 2022	276,884
Less capital assets acquired through direct borrowing, net of accumulated depreciation at January 1, 2022	(276,884)
Add lease liability under GASB Statement No. 87 at January 1, 2022	(276,884)
Less direct borrowing liability at January 1, 2022	203,371
Net Position at January 1, 2022, as Adjusted	<u>\$ 54,014,874</u>

Note 13 - Subsequent Events

Subsequent to year end, the City issued \$19,265,000 of Refunding Improvement Bonds Series 2023A to refund previously issued Temporary Refunding Improvement Bonds Series 2021A and 2021B. The Bonds bear an interest rate of 5.00% and require semi-annual interest and annual principal payments through 2048.

Subsequent to year end, the City issued \$56,245,000 of Temporary Refunding Improvement Bonds Series 2023B to finance costs of street, water, and sewer infrastructure projects. The Bonds bear an interest rate of 5.125%, with a net interest cost of 5.747% and require semi-annual interest and a balloon principal payment in 2025. The City intends to issue refunding improvement bonds to refund these bonds upon maturity.

Subsequent to year end, the City issued \$36,035,000 of Refunding Improvement Bonds, Series 2023C to refund previously issued Temporary Refunding Improvement Bonds Series 2022A and finance costs of additional infrastructure projects. The Bonds bear an average interest rate of 5.671%, with a net interest cost of 5.83% and require semi-annual interest and annual principal payments through 2049.



Additional Reports
December 31, 2022

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 *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 19, 2024.

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 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 Responses as items 2022-001, 2022-002, 2022-003, and 2022-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Responses. 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
January 19, 2024

Section I – Financial Statement Findings

**2022-001 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, including the review and approval of journal entries.

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.

**2022-002 Material Journal Entries
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 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.

**2022-003 Preparation of Financial Statements
Material Weakness**

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

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

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

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

Recommendation – 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.

2022-004 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 balances 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 accurately reconcile all accounts.

Effect – This 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 supervisor levels.

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