



Financial Statements
December 31, 2023

City of Horace, North Dakota

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City of Horace, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2023

<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>Appointed</u>		
Brent Holper	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, 2023, 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, 2023, 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.

Correction of Error

As discussed in Note 12 to the financial statements, certain errors resulting in an understatement of amounts previously reported for accounts receivable and revenues and accounts payable and expenditures/expenses as of December 31, 2022, were discovered by management of the City during the current year. Accordingly, a restatement has been made to the general fund, debt service fund, and capital projects fund fund balances and governmental activities net position as of January 1, 2023, 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 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 October 2, 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
October 2, 2024

City of Horace, North Dakota
Statement of Net Position
December 31, 2023

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 64,353,060	\$ 1,478,805	\$ 65,831,865
Receivables			
Accounts	419,324	196,647	615,971
Property taxes	34,169	-	34,169
Special assessments	71,840,587	-	71,840,587
Due from other governmental units	624,441	230,954	855,395
Capital assets			
Land	1,882,889	-	1,882,889
Construction in progress	70,835,642	-	70,835,642
Infrastructure	64,921,171	31,997,951	96,919,122
Buildings and improvements	279,086	-	279,086
Machinery and equipment	706,225	128,044	834,269
Vehicles	575,951	-	575,951
Right-to-use leased assets	295,965	-	295,965
Less accumulated depreciation/amortization	(5,759,154)	(2,556,872)	(8,316,026)
Total assets	<u>271,009,356</u>	<u>31,475,529</u>	<u>302,484,885</u>
Liabilities			
Accounts payable	2,610,366	309,562	2,919,928
Retainage payable	2,575,097	-	2,575,097
Accrued interest payable	1,269,310	6,528	1,275,838
Other liabilities	61,787	218,681	280,468
Long-term liabilities			
Due within one year	6,639,785	179,079	6,818,864
Due in more than one year	189,197,207	1,145,589	190,342,796
Total liabilities	<u>202,353,552</u>	<u>1,859,439</u>	<u>204,212,991</u>
Net Position			
Net investment in capital assets	(21,153,461)	28,036,497	6,883,036
Restricted	60,398,878	-	60,398,878
Unrestricted	29,410,387	1,579,593	30,989,980
Total net position	<u>\$ 68,655,804</u>	<u>\$ 29,616,090</u>	<u>\$ 98,271,894</u>

City of Horace, North Dakota

Statement of Activities

Year Ended December 31, 2023

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	\$ 8,266,741	\$ 3,529,020	\$ -	\$ -	\$ (4,737,721)	\$ -	\$ (4,737,721)
Public safety	-	4,301	-	-	4,301	-	4,301
Public works	5,666,961	70,532	-	21,057,254	15,460,825	-	15,460,825
Total governmental activities	13,933,702	3,603,853	-	21,057,254	10,727,405	-	10,727,405
Business-type activities							
Water	732,123	570,692	-	1,068,619	-	907,188	907,188
Sewer	850,002	676,038	-	-	-	(173,964)	(173,964)
Garbage	431,022	476,828	-	-	-	45,806	45,806
Total business-type activities	2,013,147	1,723,558	-	1,068,619	-	779,030	779,030
Total Government	\$ 15,946,849	\$ 5,327,411	\$ -	\$ 22,125,873	10,727,405	779,030	11,506,435
General revenues							
Property taxes					1,527,302	-	1,527,302
Sales tax					1,896,854	-	1,896,854
Franchise fees					137,003	-	137,003
State aid					3,322,131	-	3,322,131
Investment earnings					2,778,771	-	2,778,771
Miscellaneous					9,347	-	9,347
Transfers and capital contributions					(5,905,816)	5,905,816	-
Total general revenue, transfers, and capital contributions					3,765,592	5,905,816	9,671,408
Change in net position					14,492,997	6,684,846	21,177,843
Net position - Beginning, as Restated (Note 12)					54,162,807	22,931,244	77,094,051
Net position - Ending					\$ 68,655,804	\$ 29,616,090	\$ 98,271,894

City of Horace, North Dakota

Governmental Funds

Balance Sheet

December 31, 2023

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 2,487,068	\$ 286,969	\$ 2,316,532	\$ 14,217,963	\$ 45,044,528	\$ 64,353,060
Due from other funds	-	-	-	-	-	-
Receivables						
Accounts	11,897	-	-	-	407,427	419,324
Property taxes	34,169	-	-	-	-	34,169
Special assessments	-	-	-	71,840,587	-	71,840,587
Due from other governmental units	263,685	29,215	331,541	-	-	624,441
Total assets	\$ 2,796,819	\$ 316,184	\$ 2,648,073	\$ 86,058,550	\$ 45,451,955	\$ 137,271,581
Liabilities						
Accounts payable	\$ 159,534	\$ 2,702	\$ 421,650	\$ 10,083	\$ 2,016,397	\$ 2,610,366
Retainage payable	-	-	-	-	2,575,097	2,575,097
Other liabilities	52,353	9,434	-	-	-	61,787
Total liabilities	211,887	12,136	421,650	10,083	4,591,494	5,247,250
Deferred Inflows of Resources						
Unavailable revenue-property taxes	34,169	-	-	-	-	34,169
Unavailable revenue-special assessments	-	-	-	69,040,521	-	69,040,521
Total deferred inflows of resources	34,169	-	-	69,040,521	-	69,074,690
Fund Balance						
Restricted for						
Parks dedication	725,507	-	-	-	-	725,507
Highway maintenance	-	304,048	-	-	-	304,048
Sales tax - infrastructure improvements and economic development	-	-	2,226,423	-	-	2,226,423
Debt service	-	-	-	17,007,946	-	17,007,946
Capital projects	-	-	-	-	40,860,461	40,860,461
Unassigned	1,825,256	-	-	-	-	1,825,256
Total fund balance	2,550,763	304,048	2,226,423	17,007,946	40,860,461	62,949,641
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,796,819	\$ 316,184	\$ 2,648,073	\$ 86,058,550	\$ 45,451,955	\$ 137,271,581

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, 2023

Total Fund Balances – Governmental Funds	\$ 62,949,641
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.	133,737,775
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.	69,074,690
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:	
Special assessment bonds	(108,788,966)
Temporary refunding improvement bonds	(84,025,000)
State revolving fund loans	(1,951,332)
Bond premiums	(1,300,406)
Bond discounts	462,924
Leases payable	(148,917)
Compensated absences	(85,295)
Accrued interest	<u>(1,269,310)</u>
Total Net Position – Governmental Activities	<u>\$ 68,655,804</u>

City of Horace, North Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2023

	General	Highway	Sales Tax	Debt Service	Capital Projects	Total Governmental Funds
Revenues						
General property taxes	\$ 1,546,784	\$ -	\$ -	\$ -	\$ -	\$ 1,546,784
Special assessments	-	-	-	5,134,711	-	5,134,711
Licenses and permits	929,421	-	-	-	-	929,421
Intergovernmental	407,754	208,414	-	-	2,686,481	3,302,649
Charges for services	70,532	-	-	-	-	70,532
Fines and forfeitures	4,301	-	-	-	-	4,301
Sales tax	-	-	1,896,854	-	-	1,896,854
Investment earnings	937,069	-	-	27,420	1,814,282	2,778,771
Miscellaneous	2,745,749	200	-	-	-	2,745,949
Total revenues	<u>6,641,610</u>	<u>208,614</u>	<u>1,896,854</u>	<u>5,162,131</u>	<u>4,500,763</u>	<u>18,409,972</u>
Expenditures						
Current						
General government	2,074,311	-	-	-	-	2,074,311
Public works	-	371,814	-	-	-	371,814
General government - other	122,954	-	-	21,675	1,394,365	1,538,994
Capital outlay	-	234,977	770,841	-	55,211,980	56,217,798
Debt service						
Principal	74,639	-	-	1,998,543	-	2,073,182
Interest and fees	7,027	-	-	5,353,461	255,586	5,616,074
Total expenditures	<u>2,278,931</u>	<u>606,791</u>	<u>770,841</u>	<u>7,373,679</u>	<u>56,861,931</u>	<u>67,892,173</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,362,679	(398,177)	1,126,013	(2,211,548)	(52,361,168)	(49,482,201)
Other Financing Sources (Uses)						
Bond proceeds	-	-	-	7,788,083	103,756,917	111,545,000
Payment to bond refunding agent	-	-	-	-	(50,965,000)	(50,965,000)
Discount on bonds	-	-	-	-	(475,280)	(475,280)
Premium on bonds	-	-	-	-	245,428	245,428
Transfers in	64,380	585,000	-	-	4,865,638	5,515,018
Transfers out	(4,286,453)	(49,156)	(2,146,693)	-	(15,222)	(6,497,524)
Total other financing sources (uses)	<u>(4,222,073)</u>	<u>535,844</u>	<u>(2,146,693)</u>	<u>7,788,083</u>	<u>57,412,481</u>	<u>59,367,642</u>
Net Change in Fund Balance	140,606	137,667	(1,020,680)	5,576,535	5,051,313	9,885,441
Fund Balance, Beginning, as Restated (Note 12)	<u>2,410,157</u>	<u>166,381</u>	<u>3,247,103</u>	<u>11,431,411</u>	<u>35,809,148</u>	<u>53,064,200</u>
Fund Balance, Ending	<u>\$ 2,550,763</u>	<u>\$ 304,048</u>	<u>\$ 2,226,423</u>	<u>\$ 17,007,946</u>	<u>\$ 40,860,461</u>	<u>\$ 62,949,641</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, 2023

Net Change in Fund Balances - Total Governmental Funds	\$ 9,885,441
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	54,258,007
Depreciation/amortization expense	(1,423,623)
The contribution of capital assets to business-type activities from governmental activities is not recorded in the governmental funds. However, in the statement of activities, that amount is included within transfers	
	(4,923,310)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	
	15,922,543
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	
	(26,320)
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	
	(964,314)
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	(111,545,000)
Bond retirement	52,963,543
Premiums (Discounts) issued, net	229,852
Premiums (Discounts) amortized, net	41,539
Lease retirement	74,639
Change in Net Position of Governmental Activities	<u>\$ 14,492,997</u>

City of Horace, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2023

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
Revenues				
General property taxes	\$ 1,604,000	\$ 1,628,500	\$ 1,546,784	\$ (81,716)
Licenses and permits	581,550	871,600	929,421	57,821
Intergovernmental	255,000	365,000	407,754	42,754
Charges for services	67,920	68,950	70,532	1,582
Fines and forfeitures	2,500	3,000	4,301	1,301
Investment earnings	45,000	850,000	937,069	87,069
Miscellaneous	70,000	940,000	2,745,749	1,805,749
Total revenues	<u>2,625,970</u>	<u>4,727,050</u>	<u>6,641,610</u>	<u>1,914,560</u>
Expenditures				
Current				
General government	2,282,050	2,236,750	2,074,311	162,439
General government - other	42,420	34,500	122,954	(88,454)
Debt service				
Principal	-	-	74,639	(74,639)
Interest and fees	-	-	7,027	(7,027)
Total expenditures	<u>2,324,470</u>	<u>2,271,250</u>	<u>2,278,931</u>	<u>(7,681)</u>
Excess of Revenues over Expenditures	301,500	2,455,800	4,362,679	1,906,879
Other Financing Sources (Uses)				
Transfers in	-	15,000	64,380	49,380
Transfers out	(301,500)	(2,421,000)	(4,286,453)	(1,865,453)
Total other financing sources (uses)	<u>(301,500)</u>	<u>(2,406,000)</u>	<u>(4,222,073)</u>	<u>(1,816,073)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 49,800</u>	140,606	<u>\$ 90,806</u>
Fund Balance, Beginning, as Restated (Note 12)			<u>2,410,157</u>	
Fund Balance, Ending			<u>\$ 2,550,763</u>	

City of Horace, North Dakota

Highway Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental	\$ 155,000	\$ 155,000	\$ 208,414	\$ 53,414
Miscellaneous	-	-	200	200
Total revenues	<u>155,000</u>	<u>155,000</u>	<u>208,614</u>	<u>53,614</u>
Expenditures				
Current				
Public works	339,500	475,000	371,814	103,186
Capital outlay	<u>35,500</u>	<u>265,000</u>	<u>234,977</u>	<u>30,023</u>
Total expenditures	<u>375,000</u>	<u>740,000</u>	<u>606,791</u>	<u>133,209</u>
Deficiency of Revenues under Expenditures	(220,000)	(585,000)	(398,177)	186,823
Other Financing Sources (Uses)				
Transfers in	220,000	585,000	585,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>(49,156)</u>	<u>(49,156)</u>
Total other financing sources (uses)	<u>220,000</u>	<u>585,000</u>	<u>535,844</u>	<u>(49,156)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	137,667	<u>\$ 137,667</u>
Fund Balance, Beginning			<u>166,381</u>	
Fund Balance, Ending			<u>\$ 304,048</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, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues				
Sales Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,896,854</u>	<u>\$ 1,896,854</u>
Expenditures				
Capital outlay	<u>-</u>	<u>-</u>	<u>770,841</u>	<u>(770,841)</u>
Excess of Revenues over Expenditures	-	-	1,126,013	1,126,013
Other Financing Sources (Uses)				
Transfers out	<u>-</u>	<u>-</u>	<u>(2,146,693)</u>	<u>(2,146,693)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(1,020,680)</u>	<u>\$ (1,020,680)</u>
Fund Balance, Beginning			<u>3,247,103</u>	
Fund Balance, Ending			<u>\$ 2,226,423</u>	

City of Horace, North Dakota

Proprietary Funds
Statement of Net Position
December 31, 2023

	Water	Sewer	Garbage	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 601,700	\$ 800,880	\$ 76,225	\$ 1,478,805
Accounts receivable	65,446	57,929	73,272	196,647
Due from other governmental units	230,954	-	-	230,954
Total current assets	898,100	858,809	149,497	1,906,406
Capital assets				
Machinery and equipment	128,044	-	-	128,044
Infrastructure	14,460,081	17,537,870	-	31,997,951
Less accumulated depreciation	(932,770)	(1,624,102)	-	(2,556,872)
Net capital assets	13,655,355	15,913,768	-	29,569,123
Total assets	14,553,455	16,772,577	149,497	31,475,529
Liabilities				
Current liabilities				
Accounts payable	287,188	22,374	-	309,562
Accrued interest payable	6,528	-	-	6,528
Retainage payable	207,958	-	-	207,958
Other liabilities	6,305	4,418	-	10,723
Current maturities of long-term debt	171,447	7,632	-	179,079
Total current liabilities	679,426	34,424	-	713,850
Long-term debt (net of current portion)				
Bonds payable	1,145,589	-	-	1,145,589
Total liabilities	1,825,015	34,424	-	1,859,439
Net Position				
Net investment in capital assets	12,130,361	15,906,136	-	28,036,497
Unrestricted	598,079	832,017	149,497	1,579,593
Total net position	\$ 12,728,440	\$ 16,738,153	\$ 149,497	\$ 29,616,090

City of Horace, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2023

	Water	Sewer	Garbage	Total
Operating Revenues				
Utility sales and service charges	\$ 570,692	\$ 676,038	\$ 476,828	\$ 1,723,558
Operating Expenses				
Salaries	221,774	219,948	-	441,722
Utilities	9,329	55,400	-	64,729
Repairs and maintenance	54,300	80,345	-	134,645
Contracted services	4,293	132	431,022	435,447
Miscellaneous	175,721	151,276	-	326,997
Depreciation	238,269	342,901	-	581,170
Total operating expenses	703,686	850,002	431,022	1,984,710
Operating Income (Loss)	(132,994)	(173,964)	45,806	(261,152)
Nonoperating Revenues (Expenses)				
State grant revenue	1,068,619	-	-	1,068,619
Interest on long-term debt	(28,437)	-	-	(28,437)
Total nonoperating revenues (expenses)	1,040,182	-	-	1,040,182
Income (Loss) before Transfers and Capital Contributions	907,188	(173,964)	45,806	779,030
Transfers in	746	1,056,760	-	1,057,506
Transfers out	-	(75,000)	-	(75,000)
Capital contributions	1,924,069	2,999,241	-	4,923,310
Total transfers and capital contributions	1,924,815	3,981,001	-	5,905,816
Change in Net Position	2,832,003	3,807,037	45,806	6,684,846
Net Position, Beginning of Year	9,896,437	12,931,116	103,691	22,931,244
Net Position, End of Year	\$ 12,728,440	\$ 16,738,153	\$ 149,497	\$ 29,616,090

City of Horace, North Dakota

Proprietary Funds

Statement of Cash Flows

Year Ended December 31, 2023

	Water	Sewer	Garbage	Total
Operating Activities				
Receipts from customers and users	\$ 553,721	\$ 675,092	\$ 472,194	\$ 1,701,007
Payments to employees	(212,200)	(216,684)	-	(428,884)
Payments to vendors	(133,405)	(268,872)	(431,022)	(833,299)
Net cash from operating activities	208,116	189,536	41,172	438,824
Non-Capital Financing Activities				
Net transfer (to) from other funds	746	981,760	-	982,506
Change in interfund balances	(800,925)	(370,416)	-	(1,171,341)
Net cash from (used for) non-capital financing activities	(800,179)	611,344	-	(188,835)
Capital and Related Financing Activities				
Property and equipment additions	(1,037,312)	-	-	(1,037,312)
Proceeds from grant revenue	2,415,287	-	-	2,415,287
Payments on long-term debt				
Principal	(155,000)	-	-	(155,000)
Interest	(29,212)	-	-	(29,212)
Net cash from capital and related financing activities	1,193,763	-	-	1,193,763
Change in Cash and Cash Equivalents	601,700	800,880	41,172	1,443,752
Cash and Cash Equivalents - Beginning of Year	-	-	35,053	35,053
Cash and Cash Equivalents - End of Year	\$ 601,700	\$ 800,880	\$ 76,225	\$ 1,478,805
	Water	Sewer	Garbage	Total
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities				
Operating income (loss)	\$ (132,994)	\$ (173,964)	\$ 45,806	\$ (261,152)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	238,269	342,901	-	581,170
Changes in assets and liabilities				
Accounts receivable	(16,971)	(946)	(4,634)	(22,551)
Accounts payable	163,256	18,281	-	181,537
Customer deposits	(53,018)	-	-	(53,018)
Other liabilities	195	344	-	539
Compensated absences payable	9,379	2,920	-	12,299
Net cash from operating activities	\$ 208,116	\$ 189,536	\$ 41,172	\$ 438,824
Schedule of Non-Cash Capital and Related Financing Activities				
Capital contributions	\$ 1,924,069	\$ 2,999,241	\$ -	\$ 4,923,310
Purchase of capital assets in retainage payable	\$ 207,958	\$ -	\$ -	\$ -

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 and economic development through job creation, business retention, expansion, and recruitment in accordance with City Sales and Use Tax Ordinances.

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). (i.e., 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.

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, 2023, 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, 2023, the City had approximately \$3,200,000 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, 2023.

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, 2023:

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and Cash Equivalents			
Deposits	\$ 62,641,522	\$ 62,641,522	\$ -
Money market	3,190,343	3,190,343	-
	<u>\$ 65,831,865</u>	<u>\$ 65,831,865</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, 2023:

Tax Abatement Program

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

\$ 145,381

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

Governmental Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers*	Ending Balance
Capital assets, not being depreciated/amortized				
Land	\$ 1,882,889	\$ -	\$ -	\$ 1,882,889
Construction in progress	36,309,199	55,373,416	20,846,973	70,835,642
Total capital assets not being depreciated/amortized	38,192,088	55,373,416	20,846,973	72,718,531
Capital assets, being depreciated/amortized				
Infrastructure	50,335,067	14,586,104	-	64,921,171
Buildings and improvements	279,086	-	-	279,086
Machinery and equipment	722,725	-	16,500	706,225
Vehicles	353,801	222,150	-	575,951
Right-to-use leased assets	295,965	-	-	295,965
Total capital assets being depreciated/amortized	51,986,644	14,808,254	16,500	66,778,398
Less accumulated depreciation/amortization for				
Infrastructure	3,731,870	1,216,773	-	4,948,643
Buildings and improvements	132,666	33,927	-	166,593
Machinery and equipment	252,515	51,959	16,500	287,974
Vehicles	147,445	33,429	-	180,874
Right-to-use leased assets	87,535	87,535	-	175,070
Total accumulated depreciation/amortization	4,352,031	1,423,623	16,500	5,759,154
Total capital assets being depreciated/amortized, net	47,634,613	13,384,631	-	61,019,244
Governmental activities capital assets, net	\$ 85,826,701	\$ 68,758,047	\$ 20,846,973	\$ 133,737,775

*Included in Decreases and Transfers of Construction in progress is \$1,337,559 relating to 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, 2023

Business-Type Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ 5,074,697	\$ 927,928	\$ 6,002,625	\$ -
Capital assets, being depreciated				
Machinery and equipment	18,660	109,384	-	128,044
Infrastructure	21,072,016	10,925,935	-	31,997,951
Total capital assets being depreciated	21,090,676	11,035,319	-	32,125,995
Less accumulated depreciation for				
Machinery and equipment	6,137	2,137	-	8,274
Infrastructure	1,969,565	579,033	-	2,548,598
Total accumulated depreciation	1,975,702	581,170	-	2,556,872
Total capital assets being depreciated, net	19,114,974	10,454,149	-	29,569,123
Business-type activities capital assets, net	\$ 24,189,671	\$ 11,382,077	\$ 6,002,625	\$ 29,569,123

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

Governmental Activities	
General government	\$ 1,423,623
Business-Type Activities	
Water	\$ 238,269
Sewer	342,901
Total depreciation expense - business-type activities	\$ 581,170

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.

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2023

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Special Assessment Bonds	\$ 55,282,509	\$ 55,300,000	\$ 1,793,543	\$ 108,788,966	\$ 2,168,966
Temporary Refunding Improvement Bonds	78,745,000	56,245,000	50,965,000	84,025,000	4,080,000
State Revolving Fund Loans	2,156,332	-	205,000	1,951,332	210,000
Unamortized Premium on Bond Issuance	1,108,873	245,428	53,895	1,300,406	47,493
Unamortized Discount on Bond Issuance	-	(475,280)	(12,356)	(462,924)	(19,011)
Leases	223,556	-	74,639	148,917	67,042
Compensated absences*	58,975	26,320	-	85,295	85,295
	<u>\$ 137,575,245</u>	<u>\$ 111,341,468</u>	<u>\$ 53,079,721</u>	<u>\$ 195,836,992</u>	<u>\$ 6,639,785</u>
Governmental activity long-term debt					
Business-Type Activities					
State Revolving Fund Loans	\$ 1,460,589	\$ -	\$ 155,000	\$ 1,305,589	\$ 160,000
Compensated absences*	11,780	7,299	-	19,079	19,079
	<u>\$ 1,472,369</u>	<u>\$ 7,299</u>	<u>\$ 155,000</u>	<u>\$ 1,324,668</u>	<u>\$ 179,079</u>
Business-type activity long-term debt					

*Change in compensated absences is presented as a net change.

During the year ended December 31, 2023, the City issued \$19,265,000 of Refunding Improvement Bonds, Series 2023A, to refund previously issued Temporary Refunding Improvement Bonds. The bonds bear an interest rate of 5.00% and call for semiannual interest payments commencing November 2023 and annual principal payments commencing May 2024 through May 2048. 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.

During the year ended December 31, 2023, the City issued \$56,245,000 of Temporary Refunding Improvement Bonds Series 2023B, to finance various municipal improvement projects. The bonds bear an interest rate of 5.125% and call for semiannual interest payments commencing January 2024 through July 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.

During the year ended December 31, 2023, the City issued \$36,035,000 of Refunding Improvement Bonds, Series 2023C, to refund previously issued Temporary Refunding Improvement Bonds. The bonds bear an interest rate of 4.55% - 6.00% and call for semiannual interest payments commencing May 2024 and annual principal payments commencing May 2025 through May 2049. 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.

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2023

Outstanding bonded debt and loans as of December 31, 2023, 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	\$ 8,966
2015 Refunding Improvement Bonds	1.10 - 4.00	2040	3,590,000	2,415,000
2017 Refunding Improvement Bond	1.60 - 4.00	2042	5,875,000	5,110,000
2018 Refunding Improvement Bonds	2.50 - 4.00	2043	450,000	375,000
2018B Refunding Improvement Bonds	2.15 - 4.25	2043	3,885,000	3,375,000
2020B Refunding Improvement Bonds	2.10 - 3.50	2033	20,575,000	19,030,000
2021 Refunding Improvement Bonds	3.00	2046	24,540,000	23,175,000
2022A Temporary Refunding Improvement Bonds	3.25	2024	35,890,000	4,080,000
2022B Temporary Refunding Improvement Bonds	4.00	2025	23,700,000	23,700,000
2023A Refunding Improvement Bonds	5.00	2048	19,265,000	19,265,000
2023B Temporary Refunding Improvement Bonds	5.13	2025	56,245,000	56,245,000
2023C Refunding Improvement Bonds	4.55 - 6.00	2049	36,035,000	36,035,000
2016 ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,340,000	690,180
2017 ND Public Finance Authority Drinking Water Loan	2.00	2036	580,000	360,000
2017B ND Public Finance Authority Wastewater Treatment Assessment Loan	2.00	2037	1,728,152	901,152
Total				<u>\$ 194,765,298</u>
<u>Business-Type Activities</u>				
2018 ND Public Finance Authority Water Meter Loan	2.00	2028	\$ 422,000	\$ 225,000
2021 ND Public Finance Authority Water Treatment Loan	1.50	2032	2,740,000	1,080,589
Total				<u>\$ 1,305,589</u>

The annual requirements to amortize all bonded debt and loans debt outstanding as of December 31, 2023, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 6,458,966	\$ 9,641,927	\$ 160,000	\$ 19,584
2025	83,200,000	7,877,600	165,000	17,184
2026	3,360,000	4,402,630	165,000	14,709
2027	3,475,000	4,275,031	170,000	12,234
2028	3,600,000	4,141,920	170,000	9,684
2029-2033	19,286,152	18,587,895	475,589	16,760
2034-2038	22,975,180	14,460,641	-	-
2039-2043	26,775,000	9,276,631	-	-
2044-2048	23,065,000	3,461,038	-	-
2049	2,570,000	75,919	-	-
Total	<u>\$ 194,765,298</u>	<u>\$ 76,201,232</u>	<u>\$ 1,305,589</u>	<u>\$ 90,155</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, 2023, the notes had an aggregate outstanding balance of \$3,863,889.

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, 2023, the notes had an aggregate outstanding balance of \$1,299,885.

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. 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, 2023, the City recorded interest expense of \$7,027 related to the leases.

The future principal and interest lease payments as of December 31, 2023, were as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 67,042	\$ 4,724
2025	59,355	2,609
2026	22,520	867
Total	<u>\$ 148,917</u>	<u>\$ 8,200</u>

Note 8 - Interfund Transfers, and Capital Contributions

A summary of the City's interfund transfers for the year ended December 31, 2023, is as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
General	\$ 64,380	\$ 4,286,453
Highway	585,000	49,156
Sales Tax	-	2,146,693
Capital Projects	4,865,638	15,222
Total governmental funds	<u>5,515,018</u>	<u>6,497,524</u>
Proprietary Funds		
Water	746	-
Sewer	1,056,760	75,000
Total proprietary funds	<u>1,057,506</u>	<u>75,000</u>
Total transfers	<u>\$ 6,572,524</u>	<u>\$ 6,572,524</u>

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

During the year ended December 31, 2023, the governmental activities made capital contributions to the water and sewer funds of \$1,924,069 and \$3,490,121, 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, 2023, 2022, and 2021, were \$71,052, \$58,456, and \$44,963, respectively. There is no liability as of December 31, 2023 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, 2023, the City has incurred approximately \$7,039,000 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, 2023, the City has completed \$989,396 of projects costs relating to the agreement.

City of Horace, North Dakota

Notes to Financial Statements

December 31, 2023

Construction Commitments – The City has the following active construction projects as of December 31, 2023.

Project	Ending Balance	Total Expected Cost	Expected Completion
8th Avenue Extension (2017-5)	\$ 7,674	Preliminary*	Preliminary*
Oxbow Drainage (2020-5)	23,871	Preliminary*	Preliminary*
Terra Gardens 3rd Addition (2021-2)	2,019,726	2,339,877	2024
Deer Creek Estates (2021-7)	44,385	Preliminary*	Preliminary*
Visto Industrial Additions (2022-1)	4,007,521	3,760,000	2024
Wall Ave East (2022-3)	4,342,474	5,125,000	2024
Wall Ave West (2022-4)	5,164,336	9,225,000	2024
Southdale Farms Fourth Addition (2022-6)	14,595,902	15,238,732	2025
Southdale Farms Fifth Addition (2022-7)	1,991,597	2,685,000	2024
66th St (2022-8)	6,574,366	9,835,000	2023
63rd St (2022-9)	3,302,136	5,225,000	2024
Chestnut/Ironwood (2022-10)	2,057,280	1,835,000	2024
Cub Creek Second Addition (2022-11)	16,746,169	23,700,000	2024
Rivers Edge Second Addition (2022-12)	9,856,416	25,000,000	2025
Altenburg Acres Second Addition (2022-13)	9,160	5,520,000	2025
Southdale Farms Sixth Addition (2023-1)	12,767	3,960,000	2024
8th Ave S CR17 to Lagoon (2023-2)	12,596	4,500,000	2025
7th St E Visto 3rd to Lagoon (2023-3)	3,115	4,000,000	2024
64th Ave CR17 E 3200 LF (2023-4)	41,832	9,000,000	2025
81st St and Wall Ave (2023-5)	1,044	4,000,000	2025
76th and 81st Forcemain (2023-6)	9,642	4,000,000	2025
Sparks 1st Addition (2023-7)	1,420	4,800,000	2025
Lost River West Addition	10,212	10,620,000	2026

*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 \$7,681 for the year ended December 31, 2023. These over expenditures were funded by greater than expected revenues and existing fund balance of the General Fund. The Sales Tax Fund had expenditures exceeding appropriations in the amount of \$770,841 for the year ended December 31, 2023. These over expenditures were funded by greater than expected revenues and existing fund balance of the Sales Tax Fund.

Note 12 - Restatements

As of January 1, 2023, the City determined that the general fund and the debt service fund incorrectly omitted a receivable for property tax and special assessment payments from the County in the amounts of \$166,115 and \$478,523, respectively. In addition, the City determined that the capital projects fund incorrectly omitted a payable for previous project expenses in the amount of \$422,826. These resulted in a restatement of fund balance for the general fund, debt service fund, and capital projects fund and net position for governmental activities as of January 1, 2023. The following table describes the effects of the restatement on beginning fund balance and net position:

	General	Debt Service	Capital Projects	Governmental Activities
Fund Balance/Net Position at December 31, 2022, as Previously Reported	\$ 2,244,042	\$ 10,952,888	\$ 36,231,974	\$ 53,940,995
Add previously unrecorded property tax and special assessment revenue	166,115	478,523	-	644,638
Less previously unrecorded expenses	-	-	(422,826)	(422,826)
Fund Balance/Net Position at January 1, 2023, as Adjusted	<u>\$ 2,410,157</u>	<u>\$ 11,431,411</u>	<u>\$ 35,809,148</u>	<u>\$ 54,162,807</u>

Note 13 - Subsequent Events

Subsequent to year end, the City issued \$4,615,000 of Refunding Improvement Bonds Series 2024A to refund previously issued Temporary Refunding Improvement Bonds Series 2023C. The Bonds bear an interest rate of 5.00% and require semi-annual interest and annual principal payments through 2050.

Subsequent to year end, the City issued \$20,775,000 of Temporary Refunding Improvement Bonds Series 2024B to finance costs of street, water, and sewer infrastructure projects. The Bonds bear an interest rate of 4.850% and require semi-annual interest and a balloon principal payment in 2026. The City intends to issue refunding improvement bonds to refund these bonds upon maturity.



Additional Reports
December 31, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 2, 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 City'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 2023-001, 2023-002, 2023-003, and 2023-004 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
October 2, 2024

Section I – Financial Statement Findings

**2023-001 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, reconciliation functions, and information technologies.

Condition – The City does not have enough staff to adequately separate duties in cash receipts, cash disbursements, payroll and related liabilities, general ledger maintenance and reconciliation, including the review and approval of journal entries, and information technologies.

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, reconciliation functions, and information technologies 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.

2023-002 Material Journal Entries, including Restatements
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 restatements, 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, including restatements.

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.

2023-003 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.

2023-004 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.