

**CITY OF HORACE**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**WITH INDEPENDENT AUDITOR'S REPORT**

CITY OF HORACE  
TABLE OF CONTENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

|  | <u>Page(s)</u> |
|--|----------------|
| City Officials   | 1              |
| Independent Auditor's Report   | 2 - 4          |
| <b>BASIC FINANCIAL STATEMENTS</b>  |                |
| <b>2017</b>  |                |
| Statement of Net Position - Modified Cash Basis  | 5              |
| Statement of Activities - Modified Cash Basis  | 6              |
| Balance Sheet - Modified Cash Basis - Governmental Funds   | 7              |
| Reconciliation of Governmental Funds Balance Sheet to the<br>Statement of Net Position - Modified Cash Basis   | 8              |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balances - Modified Cash Basis - Governmental Funds   | 9              |
| Reconciliation of Governmental Funds Statement of Revenues,<br>Expenditures and Changes in Fund Balances to the Statement<br>of Activities - Modified Cash Basis | 10             |
| Statement of Net Position - Modified Cash Basis - Proprietary Funds  | 11             |
| Statement of Revenues, Expenses and Changes in Fund Net Position<br>- Modified Cash Basis - Proprietary Funds  | 12             |
| Statement of Cash Flows - Modified Cash Basis - Proprietary Funds  | 13             |
| <b>2016</b>  |                |
| Statement of Net Position - Modified Cash Basis  | 14             |
| Statement of Activities - Modified Cash Basis  | 15             |
| Balance Sheet - Modified Cash Basis - Governmental Funds   | 16             |
| Reconciliation of Governmental Funds Balance Sheet to the<br>Statement of Net Position - Modified Cash Basis   | 17             |

**CITY OF HORACE**  
**TABLE OF CONTENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

|   |                |
|---|----------------|
| Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds   | 18             |
| Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  | 19             |
| Statement of Net Position - Modified Cash Basis - Proprietary Funds   | 20             |
| Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds  | 21             |
| Statement of Cash Flows - Modified Cash Basis - Proprietary Funds   | 22             |
| <b>NOTES TO THE FINANCIAL STATEMENTS</b>  | <b>23 - 36</b> |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>   |                |
| Budgetary Comparison Schedules - Modified Cash Basis  | 37 - 40        |
| Notes to Required Supplementary Information   | 41             |
| <b>SUPPLEMENTARY INFORMATION</b>  |                |
| Schedules of Fund Activity Arising from Cash Transactions 2017  | 42 - 43        |
| Schedules of Fund Activity Arising from Cash Transactions 2016  | 44 - 45        |
| <b>ADDITIONAL REPORTS</b>   |                |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 46 - 47        |
| Schedule of Findings and Responses  | 48 - 54        |

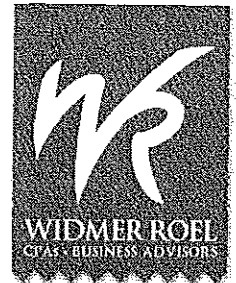
**CITY OF HORACE**  
**CITY OFFICIALS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

December 31, 2017

|                        |              |
|------------------------|--------------|
| Kory Peterson          | Mayor        |
| Sharon May             | Board Member |
| John Koerselamn        | Board Member |
| David Fenelon          | Board Member |
| Bryan Schmidt          | Board Member |
| Vance Kemmer           | Auditor      |
| Ohnstad Twichell, P.C. | Attorney     |

December 31, 2016

|                        |              |
|------------------------|--------------|
| Shane Walock           | Mayor        |
| Sharon May             | Board Member |
| John Koerselamn        | Board Member |
| David Fenelon          | Board Member |
| Bryan Schmidt          | Board Member |
| Vance Kemmer           | Auditor      |
| Ohnstad Twichell, P.C. | Attorney     |



4334 18th Avenue S.  
Ste 101  
Fargo, ND 58103-7414

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Horace  
Horace, North Dakota

We have audited the accompanying modified cash financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Horace** (the City) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Summary of Opinions*

| <u>Opinion Unit</u>      | <u>Type of Opinion</u> |
|--------------------------|------------------------|
| Governmental activities  | Adverse                |
| Business-type activities | Adverse                |
| General fund             | Unmodified             |
| Highway fund             | Unmodified             |
| Debt service funds       | Unmodified             |
| Capital project funds    | Unmodified             |
| Sales tax fund           | Unmodified             |
| Other governmental funds | Unmodified             |
| Water and sewer fund     | Adverse                |
| Other business-type fund | Unmodified             |

### *Basis for Adverse Opinion on Governmental Activities, Business-Type Activities, and Major Proprietary Fund*

As discussed in Note 1 to the financial statements, management has not recorded capital assets in the governmental activities, the business-type activities and the major proprietary fund, and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities, the business-type activities and the major proprietary fund. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities and the business-type activities has not been determined.

### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities, the business-type activities, and the proprietary major fund of the **City of Horace** as of December 31, 2017 and 2016, or the changes in financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of each major governmental fund and the aggregate remaining fund information of the governmental funds of the **City of Horace** as of December 31, 2017 and 2016, and the respective changes in financial position thereof, for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

### *Basis of Accounting*

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 37-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting in placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, when consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 opinion on the basic financial statements is not affected by this missing information.

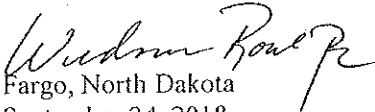
*Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horace's basic financial statements. The schedules of fund activity arising from cash transactions on pages 42-45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of fund activity arising from cash transactions are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the City of Horace'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 of Horace'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 of Horace's internal control over financial reporting and compliance.

  
Fargo, North Dakota  
September 24, 2018

**CITY OF HORACE**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2017**

|                                    | <u>Governmental</u><br><u>Activities</u> | <u>Business-type</u><br><u>Activities</u> | <u>Total</u>        |
|------------------------------------|--|---|---------------------|
| <b>ASSETS</b>                      |  |   |                     |
| Cash and investments               | \$ 5,504,804                             | \$ 71,575                                 | \$ 5,576,379        |
| Advance to enterprise funds        | 115,193                                  | -   | 115,193             |
| Note receivable                    | <u>96,674</u>                            | <u>-</u>                                  | <u>96,674</u>       |
| Total assets                       | <u>\$ 5,716,671</u>                      | <u>\$ 71,575</u>                          | <u>\$ 5,788,246</u> |
| <b>LIABILITIES</b>                 |  |   |                     |
| Checks in excess of deposits       | \$ 1,826,009                             | \$ -                                      | \$ 1,826,009        |
| Advance from general fund          | -  | 115,193                                   | 115,193             |
| Long-term liabilities              |  |   |                     |
| Due within one year                |  |   |                     |
| Special assessment bonds payable   | 356,710                                  | -   | 356,710             |
| Loans payable                      | -  | 211,000                                   | 211,000             |
| Due after one year                 |  |   |                     |
| Special assessment bonds payable   | 9,487,836                                | -   | 9,487,836           |
| Loans payable                      | <u>-</u>                                 | <u>1,826,063</u>                          | <u>1,826,063</u>    |
| Total liabilities                  | <u>11,670,555</u>                        | <u>2,152,256</u>                          | <u>13,822,811</u>   |
| <b>NET POSITION</b>                |  |   |                     |
| Restricted                         |  |   |                     |
| Highways maintenance               | 921,777                                  | -   | 921,777             |
| Public works                       | 53,172                                   | -   | 53,172              |
| Sales tax                          | 185,167                                  | -   | 185,167             |
| Special assessments                | 25,062                                   | -   | 25,062              |
| Payroll taxes                      | 39,946                                   | -   | 39,946              |
| Unrestricted                       | <u>(7,179,008)</u>                       | <u>(2,080,681)</u>                        | <u>(9,259,689)</u>  |
| Total net position                 | <u>(5,953,884)</u>                       | <u>(2,080,681)</u>                        | <u>(8,034,565)</u>  |
| Total liabilities and net position | <u>\$ 5,716,671</u>                      | <u>\$ 71,575</u>                          | <u>\$ 5,788,246</u> |



**CITY OF HORACE**

**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

|   | Program Revenues        |  | Net Revenues (Expenses) and<br>Changes in Net Position |                             |
|---|-------------------------|--|--|-----------------------------|
|   | Charges for<br>Services | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                             | Business-type<br>Activities |
| <b>GOVERNMENTAL ACTIVITIES</b>              |                         |  |  |                             |
| General government                          | \$ 654,987              | \$ -                                   | \$ (497,130)   | \$ (497,130)                |
| Public safety                               | 139,545                 | -                                      | (139,545)  | (139,545)                   |
| Public works                                | 4,300,939               | 151,992                                | (4,148,947)  | (4,148,947)                 |
| Bond issuance costs                         | 148,834                 | -                                      | (148,834)  | (148,834)                   |
| Interest on long-term debt                  | 136,000                 | -                                      | (136,000)  | (136,000)                   |
| Total governmental activities               | <u>5,380,305</u>        | <u>151,992</u>                         | <u>(5,070,456)</u>                                     | <u>(5,070,456)</u>          |
| <b>BUSINESS-TYPE ACTIVITIES</b>             |                         |  |  |                             |
| Water and sewer                             | 2,322,537               | -                                      | -  | (1,966,737)                 |
| Total                                       | <u>\$ 7,702,842</u>     | <u>\$ 151,992</u>                      | <u>(5,070,456)</u>                                     | <u>(1,966,737)</u>          |
|   |                         |  |  | <u>(7,037,193)</u>          |
| <b>GENERAL REVENUES</b>                     |                         |  |  |                             |
| Taxes                                       |                         |  |  |                             |
| Property taxes levied for general purposes  |                         |  | 403,847  | 403,847                     |
| Property taxes levied for special purposes  |                         |  | 185,230  | 185,230                     |
| Special assessments levied for debt service |                         |  | 435,164  | 435,164                     |
| State revenue sharing                       |                         |  | 182,657  | 182,657                     |
| Interest income                             |                         |  | 884  | 884                         |
| Miscellaneous revenue                       |                         |  | 23,934   | 23,934                      |
| Transfers                                   |                         |  | 11,910   | (11,910)                    |
| Total general revenues                      |                         |  | <u>1,243,626</u>                                       | <u>1,231,716</u>            |
| Change in net position                      |                         |  | <u>(3,826,830)</u>                                     | <u>(5,805,477)</u>          |
| Net position - January 1                    |                         |  | <u>(2,127,054)</u>                                     | <u>(2,229,088)</u>          |
| Net position - December 31                  |                         |  | <u>\$ (5,953,884)</u>                                  | <u>\$ (8,034,565)</u>       |

See Notes to Financial Statements

**CITY OF HORACE**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

|                                     | General Fund | Highway Fund | Debt Service Funds | Capital Project Funds | Sales Tax Fund | Other Government Funds | Total Government Funds |
|-------------------------------------|--------------|--------------|--------------------|-----------------------|----------------|------------------------|------------------------|
| <b>ASSETS</b>                       |              |              |                    |                       |                |                        |                        |
| Cash and investments                | \$ 729,852   | \$ 921,777   | \$ 1,595,818       | \$ 2,007,182          | \$ 185,167     | \$ 65,008              | \$ 5,504,804           |
| Advance to enterprise funds         | 115,193      | -            | -                  | -                     | -              | -                      | 115,193                |
| Total assets                        | \$ 845,045   | \$ 921,777   | \$ 1,595,818       | \$ 2,007,182          | \$ 185,167     | \$ 65,008              | \$ 5,619,997           |
| <b>LIABILITIES</b>                  |              |              |                    |                       |                |                        |                        |
| Checks in excess of deposits        | \$ -         | \$ -         | \$ 1,826,009       | \$ -                  | \$ -           | \$ -                   | \$ 1,826,009           |
| <b>FUND BALANCES</b>                |              |              |                    |                       |                |                        |                        |
| Restricted for                      |              |              |                    |                       |                |                        |                        |
| Highways maintenance                | -            | 921,777      | -                  | -                     | -              | -                      | 921,777                |
| Public works                        | 53,172       | -            | -                  | 2,007,182             | -              | -                      | 2,060,354              |
| Special assessments                 | -            | -            | -                  | -                     | -              | 25,062                 | 25,062                 |
| Sales tax                           | -            | -            | -                  | -                     | 185,167        | -                      | 185,167                |
| Payroll taxes                       | -            | -            | -                  | -                     | -              | 39,946                 | 39,946                 |
| Unassigned                          | 791,873      | -            | (230,191)          | -                     | -              | -                      | 561,682                |
| Total fund balances                 | \$ 845,045   | \$ 921,777   | \$ (230,191)       | \$ 2,007,182          | \$ 185,167     | \$ 65,008              | \$ 3,793,988           |
| Total liabilities and fund balances | \$ 845,045   | \$ 921,777   | \$ 1,595,818       | \$ 2,007,182          | \$ 185,167     | \$ 65,008              | \$ 5,619,997           |

See Notes to Financial Statements

CITY OF HORACE  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS  
DECEMBER 31, 2017

Total fund balances for governmental funds \$ 3,793,988

Total net position reported for governmental activities in the statement of net position is different because:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Balances at December 31, 2017 are:

Special assessment bonds payable (9,844,546)

Community notes receivable are not available to pay for current period expenditures and thus are not recognized in the governmental funds but are recognized in the statement of net position.

96,674

Total net position of governmental activities \$ (5,953,884)

**CITY OF HORACE**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  | General Fund      | Highway Fund      | Debt Service Funds  | Capital Project Funds | Sales Tax Fund    | Other Government Funds | Total Government Funds |
|--|-------------------|-------------------|---------------------|-----------------------|-------------------|------------------------|------------------------|
| <b>REVENUES</b>  |                   |                   |                     |                       |                   |                        |                        |
| Taxes  | \$ 403,847        | -                 | \$ -                | -                     | \$ 185,167        | \$ 62                  | \$ 589,076             |
| Special assessments  | -                 | -                 | 435,164             | -                     | -                 | -                      | 435,164                |
| Licenses, permits and fees                                 | 157,857           | -                 | -                   | -                     | -                 | -                      | 157,857                |
| Intergovernmental  | 182,657           | 151,992           | -                   | -                     | -                 | -                      | 334,649                |
| Interest   | 884               | -                 | -                   | -                     | -                 | -                      | 884                    |
| Miscellaneous  | 37,260            | -                 | -                   | -                     | -                 | -                      | 37,260                 |
| <b>Total revenues</b>                                      | <u>782,505</u>    | <u>151,992</u>    | <u>435,164</u>      | <u>-</u>              | <u>185,167</u>    | <u>62</u>              | <u>1,554,890</u>       |
| <b>EXPENDITURES</b>  |                   |                   |                     |                       |                   |                        |                        |
| Current  |                   |                   |                     |                       |                   |                        |                        |
| General government   | 654,987           | -                 | -                   | -                     | -                 | -                      | 654,987                |
| Public safety  | 139,545           | -                 | -                   | -                     | -                 | -                      | 139,545                |
| Public works   | -                 | 240,490           | -                   | -                     | -                 | -                      | 240,490                |
| Capital outlay   | -                 | -                 | -                   | 4,060,448             | -                 | -                      | 4,060,448              |
| Debt service   | -                 | -                 | 211,393             | 220,000               | -                 | -                      | 431,393                |
| Principal  | -                 | -                 | -                   | 148,834               | -                 | -                      | 148,834                |
| Bond issuance costs  | -                 | -                 | 23,679              | 112,321               | -                 | -                      | 136,000                |
| Interest and fees  | -                 | -                 | -                   | -                     | -                 | -                      | -                      |
| <b>Total expenditures</b>                                  | <u>794,532</u>    | <u>240,490</u>    | <u>235,072</u>      | <u>4,541,603</u>      | <u>-</u>          | <u>-</u>               | <u>5,811,697</u>       |
| Excess (deficiency) of revenues over expenditures          | <u>(12,027)</u>   | <u>(88,498)</u>   | <u>200,092</u>      | <u>(4,541,603)</u>    | <u>185,167</u>    | <u>62</u>              | <u>(4,256,807)</u>     |
| <b>OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS</b> |                   |                   |                     |                       |                   |                        |                        |
| Transfers in   | -                 | 150,067           | 2,121,706           | 732,443               | -                 | 22,183                 | 3,026,399              |
| Transfers out  | (304,900)         | -                 | (2,709,551)         | -                     | -                 | (38)                   | (3,014,489)            |
| Loan proceeds  | -                 | -                 | -                   | 5,875,000             | -                 | -                      | 5,875,000              |
| <b>Total other financing sources (uses)</b>                | <u>(304,900)</u>  | <u>150,067</u>    | <u>(587,845)</u>    | <u>6,607,443</u>      | <u>-</u>          | <u>22,145</u>          | <u>5,886,910</u>       |
| <b>Net change in fund balances</b>                         | <u>(316,927)</u>  | <u>61,569</u>     | <u>(387,753)</u>    | <u>2,065,840</u>      | <u>185,167</u>    | <u>22,207</u>          | <u>1,630,103</u>       |
| <b>Fund balances - January 1</b>                           | <u>1,161,972</u>  | <u>860,208</u>    | <u>157,562</u>      | <u>(58,658)</u>       | <u>-</u>          | <u>42,801</u>          | <u>2,163,885</u>       |
| <b>Fund balances - December 31</b>                         | <u>\$ 845,045</u> | <u>\$ 921,777</u> | <u>\$ (230,191)</u> | <u>\$ 2,007,182</u>   | <u>\$ 185,167</u> | <u>\$ 65,008</u>       | <u>\$ 3,793,988</u>    |

See Notes to Financial Statements

**CITY OF HORACE**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES –**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds \$ 1,630,103

The change in net position reported for governmental activities in the statement of activities is different because:

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term debt in the statement of net position. Also, the repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

|                                       |             |
|---------------------------------------|-------------|
| Issuance of special assessment bonds  | (5,875,000) |
| Repayment of special assessment bonds | 431,393     |

The repayment of principal by debtors to the City is considered income in the governmental funds, but the repayment is shown as a reduction of the notes receivable amounts in the statement of net position.

(13,326)

Change in net position of governmental activities \$ (3,826,830)

CITY OF HORACE  
STATEMENT OF NET POSITION— MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
DECEMBER 31, 2017

|                                    | <u>Water and<br/>Sewer<br/>Fund</u> |
|------------------------------------|-------------------------------------|
| <b>ASSETS</b>                      |                                     |
| Cash and investments               | \$ <u>71,575</u>                    |
| <b>LIABILITIES</b>                 |                                     |
| Current liabilities                |                                     |
| Loans payable                      | \$ 211,000                          |
| Noncurrent liabilities             |                                     |
| Advance from general fund          | 115,193                             |
| Loans payable                      | <u>1,826,063</u>                    |
| Total liabilities                  | <u>2,152,256</u>                    |
| <b>NET POSITION</b>                |                                     |
| Unrestricted                       | <u>(2,080,681)</u>                  |
| Total liabilities and net position | \$ <u>71,575</u>                    |

CITY OF HORACE  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
 FUND NET POSITION – MODIFIED CASH BASIS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2017

|                            | <u>Water and<br/>Sewer<br/>Fund</u> |
|----------------------------|-------------------------------------|
| <b>OPERATING REVENUES</b>  |                                     |
| Water operations           | \$ 46,554                           |
| Sanitary sewer operations  | 79,224                              |
| Garbage operations         | 159,174                             |
| Water tower surcharge      | 35,424                              |
| Lagoon surcharge           | <u>35,424</u>                       |
| Total operating revenues   | <u>355,800</u>                      |
| <b>OPERATING EXPENSES</b>  |                                     |
| Construction costs         | 1,887,727                           |
| Salaries and wages         | 116,616                             |
| Contracted services        | 218,980                             |
| Maintenance and supplies   | 76,784                              |
| Purchased power costs      | 16,700                              |
| Debt interest              | <u>5,730</u>                        |
| Total operating expenses   | <u>2,322,537</u>                    |
| Loss before transfers      | <u>(1,966,737)</u>                  |
| Transfer out               | <u>(11,910)</u>                     |
| Change in net position     | <u>(1,978,647)</u>                  |
| Net position - January 1   | <u>(102,034)</u>                    |
| Net position - December 31 | <u>\$ (2,080,681)</u>               |

**CITY OF HORACE**  
**STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  | <u>Water and<br/>Sewer<br/>Fund</u> |
|--|-------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                                     |
| Receipts from customers                                    | \$ 355,800                          |
| Payments to suppliers                                      | (312,464)                           |
| Payments to employees                                      | <u>(116,616)</u>                    |
| Net cash used by operating activities                      | <u>(73,280)</u>                     |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>        |                                     |
| Construction costs   | \$ (1,887,727)                      |
| Proceeds from issuance of long-term debt                   | 2,038,063                           |
| Payments on long term debt                                 | (1,000)                             |
| Payments on interest                                       | <u>(5,730)</u>                      |
| Net cash provided by capital financing activities          | <u>143,606</u>                      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES</b> |                                     |
| Transfers out  | <u>(11,910)</u>                     |
| Net increase in cash and cash equivalents                  | <u>58,416</u>                       |
| Cash and cash equivalents - January 1                      | <u>13,159</u>                       |
| Cash and cash equivalents - December 31                    | <u><u>\$ 71,575</u></u>             |



**CITY OF HORACE**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2016**

|                                    | <u>Governmental</u><br><u>Activities</u> | <u>Business-type</u><br><u>Activities</u> | <u>Total</u>        |
|------------------------------------|--|---|---------------------|
| <b>ASSETS</b>                      |  |   |                     |
| Cash and investments               | \$ 2,580,627                             | \$ 13,159                                 | \$ 2,593,786        |
| Advance to enterprise funds        | 115,193                                  | -   | 115,193             |
| Note receivable                    | <u>110,000</u>                           | <u>-</u>                                  | <u>110,000</u>      |
| Total assets                       | <u>\$ 2,805,820</u>                      | <u>\$ 13,159</u>                          | <u>\$ 2,818,979</u> |
| <b>LIABILITIES</b>                 |  |   |                     |
| Checks in excess of deposits       | \$ 531,935                               | \$ -                                      | \$ 531,935          |
| Advance from general fund          | -  | 115,193                                   | 115,193             |
| Long-term liabilities              |  |   |                     |
| Due within one year                |  |   |                     |
| Special assessment bonds payable   | 431,393                                  | -   | 431,393             |
| Due after one year                 |  |   |                     |
| Special assessment bonds payable   | <u>3,969,546</u>                         | <u>-</u>                                  | <u>3,969,546</u>    |
| Total liabilities                  | <u>4,932,874</u>                         | <u>115,193</u>                            | <u>5,048,067</u>    |
| <b>NET POSITION</b>                |  |   |                     |
| Restricted                         |  |   |                     |
| Debt service                       | 157,562                                  | -   | 157,562             |
| Highways                           | 860,208                                  | -   | 860,208             |
| Public works                       | 53,172                                   | -   | 53,172              |
| Special Assessments                | 25,062                                   | -   | 25,062              |
| Payroll taxes                      | 17,739                                   | -   | 17,739              |
| Unrestricted                       | <u>(3,240,797)</u>                       | <u>(102,034)</u>                          | <u>(3,342,831)</u>  |
| Total net position                 | <u>(2,127,054)</u>                       | <u>(102,034)</u>                          | <u>(2,229,088)</u>  |
| Total liabilities and net position | <u>\$ 2,805,820</u>                      | <u>\$ 13,159</u>                          | <u>\$ 2,818,979</u> |

**CITY OF HORACE**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

|   | Program Revenues        |  | Net Revenues (Expenses) and<br>Changes in Net Position |                             |
|---|-------------------------|--|--|-----------------------------|
|   | Charges for<br>Services | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                             | Business-type<br>Activities |
| <b>GOVERNMENTAL ACTIVITIES</b>              |                         |  |  |                             |
| General government                          | \$ 770,531              | \$ -                                   | \$ (642,955)   | \$ -                        |
| Public safety                               | 30,885                  | -                                      | (30,885)   | -                           |
| Public works                                | 1,027,530               | 147,817                                | (879,713)  | -                           |
| Interest on long-term debt                  | 145,877                 | -                                      | (145,877)  | -                           |
| Total governmental activities               | <u>1,974,823</u>        | <u>147,817</u>                         | <u>(1,699,430)</u>                                     | <u>-</u>                    |
| <b>BUSINESS-TYPE ACTIVITIES</b>             |                         |  |  |                             |
| Water and sewer                             | 386,621                 | -                                      | -  | 33,509                      |
| Total                                       | <u>\$ 2,361,444</u>     | <u>\$ 147,817</u>                      | <u>(1,699,430)</u>                                     | <u>33,509</u>               |
|   |                         |  |  | <u>(1,665,921)</u>          |
| <b>GENERAL REVENUES</b>                     |                         |  |  |                             |
| Taxes                                       |                         |  |  |                             |
| Property taxes levied for general purposes  |                         |  | 368,337  | -                           |
| Property taxes levied for special purposes  |                         |  | 3,995  | -                           |
| Special assessments levied for debt service |                         |  | 449,348  | -                           |
| State revenue sharing                       |                         |  | 202,115  | -                           |
| Interest income                             |                         |  | 615  | -                           |
| Transfers                                   |                         |  | (67,495)   | 67,495                      |
| Total general revenues                      |                         |  | <u>956,915</u>   | <u>67,495</u>               |
| Change in net position                      |                         |  | <u>(742,515)</u>                                       | <u>101,004</u>              |
| Net position - January 1                    |                         |  | <u>(1,384,539)</u>                                     | <u>(203,038)</u>            |
| Net position - December 31                  |                         |  | <u>\$ (2,127,054)</u>                                  | <u>\$ (102,034)</u>         |
|   |                         |  |  | <u>\$ (2,229,088)</u>       |

See Notes to Financial Statements

**CITY OF HORACE**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2016**

|                                     | General Fund        | Highway Fund      | Debt Service Funds | Capital Projects Funds | Other Government Funds | Total Government Funds |
|-------------------------------------|---------------------|-------------------|--------------------|------------------------|------------------------|------------------------|
| <b>ASSETS</b>                       |                     |                   |                    |                        |                        |                        |
| Cash and investments                | \$ 1,046,779        | \$ 860,208        | \$ 157,562         | \$ 473,277             | \$ 42,801              | \$ 2,580,627           |
| Advance to enterprise funds         | <u>115,193</u>      | <u>-</u>          | <u>-</u>           | <u>-</u>               | <u>-</u>               | <u>115,193</u>         |
| Total assets                        | <u>\$ 1,161,972</u> | <u>\$ 860,208</u> | <u>\$ 157,562</u>  | <u>\$ 473,277</u>      | <u>\$ 42,801</u>       | <u>\$ 2,695,820</u>    |
| <b>LIABILITIES</b>                  |                     |                   |                    |                        |                        |                        |
| Checks in excess of deposits        | \$ -                | \$ -              | \$ -               | \$ 531,935             | \$ -                   | \$ 531,935             |
| <b>FUND BALANCES</b>                |                     |                   |                    |                        |                        |                        |
| Restricted for                      |                     |                   |                    |                        |                        |                        |
| Debt service                        | -                   | -                 | 157,562            | -                      | -                      | 157,562                |
| Highways maintenance                | -                   | 860,208           | -                  | -                      | -                      | 860,208                |
| Public works                        | 53,172              | -                 | -                  | -                      | -                      | 53,172                 |
| Special assessments                 | -                   | -                 | -                  | -                      | 25,062                 | 25,062                 |
| Social security taxes               | -                   | -                 | -                  | -                      | 17,739                 | 17,739                 |
| Unassigned                          | <u>1,108,800</u>    | <u>-</u>          | <u>-</u>           | <u>(58,658)</u>        | <u>-</u>               | <u>1,050,142</u>       |
| Total fund balances                 | <u>\$ 1,161,972</u> | <u>\$ 860,208</u> | <u>\$ 157,562</u>  | <u>\$ (58,658)</u>     | <u>\$ 42,801</u>       | <u>\$ 2,163,885</u>    |
| Total liabilities and fund balances | <u>\$ 1,161,972</u> | <u>\$ 860,208</u> | <u>\$ 157,562</u>  | <u>\$ 473,277</u>      | <u>\$ 42,801</u>       | <u>\$ 2,695,820</u>    |

**CITY OF HORACE**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2016**

**Total fund balances for governmental funds** \$ 2,163,885

Total net position reported for governmental activities in the statement of net position is different because:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Balances at December 31, 2016 are:

Special assessment bonds payable (4,400,939)

Community notes receivable are not available to pay for current period expenditures and thus are not recognized in the governmental funds but are recognized in the statement of net position.

110,000

**Total net position of governmental activities** \$ (2,127,054)

CITY OF HORACE

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2016

|  | General Fund        | Highway Fund      | Debt Service Funds | Capital Projects Funds | Other Government Funds | Total Government Funds |
|--|---------------------|-------------------|--------------------|------------------------|------------------------|------------------------|
| <b>REVENUES</b>  |                     |                   |                    |                        |                        |                        |
| Taxes  | \$ 368,337          | -                 | -                  | -                      | 3,995                  | \$ 372,332             |
| Special assessments  | -                   | -                 | 449,349            | -                      | -                      | 449,349                |
| Licenses, permits and fees                                 | 127,576             | -                 | -                  | -                      | -                      | 127,576                |
| Intergovernmental  | 202,113             | 147,817           | -                  | -                      | -                      | 349,930                |
| Interest   | 615                 | -                 | -                  | -                      | -                      | 615                    |
| Miscellaneous  | -                   | -                 | -                  | -                      | -                      | -                      |
| Total revenues   | <u>698,641</u>      | <u>147,817</u>    | <u>449,349</u>     | <u>-</u>               | <u>3,995</u>           | <u>1,299,802</u>       |
| <b>EXPENDITURES</b>  |                     |                   |                    |                        |                        |                        |
| Current  |                     |                   |                    |                        |                        |                        |
| General government   | 770,531             | -                 | -                  | -                      | -                      | 770,531                |
| Public safety  | 30,885              | -                 | -                  | -                      | -                      | 30,885                 |
| Public works   | -                   | 102,376           | -                  | -                      | -                      | 102,376                |
| Capital outlay   | -                   | -                 | -                  | 925,153                | -                      | 925,153                |
| Debt service   | -                   | -                 | 211,092            | 115,000                | -                      | 326,092                |
| Principal  | -                   | -                 | 31,088             | 114,789                | -                      | 145,877                |
| Interest and fees  | -                   | -                 | -                  | -                      | -                      | -                      |
| Total expenditures   | <u>801,416</u>      | <u>102,376</u>    | <u>242,180</u>     | <u>1,154,942</u>       | <u>-</u>               | <u>2,300,914</u>       |
| Excess (deficiency) of revenues over expenditures          | <u>(102,775)</u>    | <u>45,441</u>     | <u>207,169</u>     | <u>(1,154,942)</u>     | <u>3,995</u>           | <u>(1,001,112)</u>     |
| <b>OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS</b> |                     |                   |                    |                        |                        |                        |
| Transfers in   | 56,712              | -                 | 1,861,884          | 661,637                | -                      | 2,580,233              |
| Transfers out  | -                   | -                 | (2,547,831)        | (43,185)               | (56,712)               | (2,647,728)            |
| Total other financing sources (uses)                       | <u>56,712</u>       | <u>-</u>          | <u>(685,947)</u>   | <u>618,452</u>         | <u>(56,712)</u>        | <u>(67,495)</u>        |
| Net change in fund balances                                | <u>(46,063)</u>     | <u>45,441</u>     | <u>(478,778)</u>   | <u>(536,490)</u>       | <u>(52,717)</u>        | <u>(1,068,607)</u>     |
| Fund balances - January 1                                  | <u>1,208,035</u>    | <u>814,767</u>    | <u>636,340</u>     | <u>477,832</u>         | <u>95,518</u>          | <u>3,232,492</u>       |
| Fund balances - December 31                                | <u>\$ 1,161,972</u> | <u>\$ 860,208</u> | <u>\$ 157,562</u>  | <u>\$ (58,658)</u>     | <u>\$ 42,801</u>       | <u>\$ 2,163,885</u>    |

See Notes to Financial Statements

**CITY OF HORACE**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES –**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds \$ (1,068,607)

The change in net position reported for governmental activities in the statement of activities is different because:

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term debt in the statement of net position. Also, the repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

|   |              |
|---|--------------|
| Repayment of special assessment bonds             | 326,092      |
| Change in net position of governmental activities | \$ (742,515) |

CITY OF HORACE  
STATEMENT OF NET POSITION – MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
DECEMBER 31, 2016

|                                    | Water and<br>Sewer<br>Fund | Other<br>Enterprise<br>Fund | Total<br>Enterprise<br>Funds |
|------------------------------------|----------------------------|-----------------------------|------------------------------|
| <b>ASSETS</b>                      |                            |                             |                              |
| Cash and investments               | \$ <u>13,159</u>           | \$ <u>-</u>                 | \$ <u>13,159</u>             |
| <b>LIABILITIES</b>                 |                            |                             |                              |
| Noncurrent liabilities             |                            |                             |                              |
| Advance from general fund          | \$ 115,193                 | \$ -                        | \$ 115,193                   |
| <b>NET POSITION</b>                |                            |                             |                              |
| Unrestricted                       | <u>(102,034)</u>           | <u>-</u>                    | <u>(102,034)</u>             |
| Total liabilities and net position | \$ <u>13,159</u>           | \$ <u>-</u>                 | \$ <u>13,159</u>             |

**CITY OF HORACE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**FUND NET POSITION- MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|                            | <u>Water and<br/>Sewer<br/>Fund</u> | <u>Other<br/>Enterprise<br/>Funds</u> | <u>Total<br/>Enterprise<br/>Funds</u> |
|----------------------------|-------------------------------------|---------------------------------------|---------------------------------------|
| <b>OPERATING REVENUES</b>  |                                     |                                       |                                       |
| Water operations           | \$ 71,347                           | \$ -                                  | \$ 71,347                             |
| Sanitary sewer operations  | 87,751                              | -                                     | 87,751                                |
| Garbage operations         | 168,380                             | -                                     | 168,380                               |
| Water tower surcharge      | 46,326                              | -                                     | 46,326                                |
| Lagoon surcharge           | <u>46,326</u>                       | <u>-</u>                              | <u>46,326</u>                         |
| Total operating revenues   | <u>420,130</u>                      | <u>-</u>                              | <u>420,130</u>                        |
| <b>OPERATING EXPENSES</b>  |                                     |                                       |                                       |
| Salaries and wages         | 118,394                             | -                                     | 118,394                               |
| Contracted services        | 182,571                             | -                                     | 182,571                               |
| Maintenance and supplies   | 68,555                              | -                                     | 68,555                                |
| Purchased power costs      | <u>17,101</u>                       | <u>-</u>                              | <u>17,101</u>                         |
| Total operating expenses   | <u>386,621</u>                      | <u>-</u>                              | <u>386,621</u>                        |
| Income before transfers    | <u>33,509</u>                       | <u>-</u>                              | <u>33,509</u>                         |
| Transfer in                | <u>-</u>                            | <u>67,495</u>                         | <u>67,495</u>                         |
| Change in net position     | <u>33,509</u>                       | <u>67,495</u>                         | <u>101,004</u>                        |
| Net position - January 1   | <u>(135,543)</u>                    | <u>(67,495)</u>                       | <u>(203,038)</u>                      |
| Net position - December 31 | <u>\$ (102,034)</u>                 | <u>\$ -</u>                           | <u>\$ (102,034)</u>                   |



**CITY OF HORACE**  
**STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|   | <u>Water and<br/>Sewer<br/>Fund</u> | <u>Other<br/>Enterprise<br/>Funds</u> | <u>Total<br/>Enterprise<br/>Funds</u> |
|---|-------------------------------------|---------------------------------------|---------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |                                     |                                       |                                       |
| Receipts from customers                                     | \$ 420,130                          | \$ -                                  | \$ 420,130                            |
| Payments to suppliers                                       | (288,577)                           | -                                     | (288,577)                             |
| Payments to employees                                       | <u>(118,394)</u>                    | <u>-</u>                              | <u>(118,394)</u>                      |
| Net cash provided by operating activities                   | <u>13,159</u>                       | <u>-</u>                              | <u>13,159</u>                         |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES</b>  |                                     |                                       |                                       |
| Transfer in   | -                                   | 67,495                                | 67,495                                |
| Interfund loans   | <u>-</u>                            | <u>(67,495)</u>                       | <u>(67,495)</u>                       |
| Net cash provided (used) by noncapital financing activities | <u>-</u>                            | <u>-</u>                              | <u>-</u>                              |
| Net decrease in cash and cash equivalents                   | <u>13,159</u>                       | <u>-</u>                              | <u>13,159</u>                         |
| Cash and cash equivalents - January 1                       | <u>-</u>                            | <u>-</u>                              | <u>-</u>                              |
| Cash and cash equivalents - December 31                     | <u>\$ 13,159</u>                    | <u>\$ -</u>                           | <u>\$ 13,159</u>                      |

CITY OF HORACE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations*

The City of Horace, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Horace, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Records are not maintained for capital assets. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

*Financial Reporting Entity*

The accompanying financial statements present the activities of the City of Horace (“City”). The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Horace to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Horace.

Based on these criteria, there are no component units to be included within the City of Horace as a reporting entity.

*Basis of Presentation*

*Government-wide Financial Statements:* The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the primary government of the City of Horace. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City's funds. Separate statements for each fund category *governmental* and *proprietary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

CITY OF HORACE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

*General Fund* - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Highway Fund* - This fund is used to account for taxes received for streets and highways and for repair and maintenance projects.

*Debt Service Funds* - This fund includes all of the City's debt service funds aggregated and reported as one major debt service fund. This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

*Capital Project Funds* - This fund includes all of the City's capital project funds aggregated and reported as one major fund. This fund is used to account for financial resources, including special assessments, to be used for the acquisition or construction of major capital facilities, (other than those financed by proprietary funds or trust funds).

*Sales Tax Fund* - This fund includes all of the City's sales taxes received to pay for infrastructure improvements, economic development, job creation, and business retention, expansion, and recruitment.

The City reports the following major enterprise fund:

*Water and Sewer Fund* - This fund is used to account for customer receipts and payments for public utilities.

*Measurement Focus and Basis of Accounting*

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item (b) below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a) All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

(Continued)

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

***Cash and Investments***

Cash includes amounts in demand deposits and certificates of deposit with original maturities less than 90 days, stated at cost.

Investments consist of certificates of deposit, with an original maturity date in excess of 90 days, and money market funds stated at fair value, which approximates market.

***Due from (to) Other Funds***

Due from (to) other funds arise primarily as a result of a cash deficit in one or more funds. These liabilities are expected to be eliminated within one year through future revenues and transfers.

***Fund Balances – Governmental Funds***

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

***Fund Balance*** – Generally, the fund balance represents the difference between current assets and current liabilities. In the fund financial statements, the governmental funds report fund classification that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds are spent. Fund balances are classified as follows:

***Nonspendable*** – Fund balances that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

***Restricted*** – Constraints are placed on the use of fund balances which are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

***Committed*** – Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the governing board. Formal action is required to rescind a fund balance commitment.

CITY OF HORACE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

*Assigned* – Assigned fund balances are amounts that are constrained by the government’s intent to be used for specific purposes, but are under the direction of the board and the city’s management.

*Unassigned* – Unassigned fund balances are those that have not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance.

At December 31, 2017 and 2016, the City only had restricted and unassigned fund balances. Restricted fund balances were constrained by state laws related to specific tax levies and highway tax distributions, as well as provisions of debt covenants.

*Net Position* – Net position represents the difference between assets and liabilities. Net positions are classified in the following categories:

*Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

*Restricted Net Position* – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

*Unrestricted Net Position* – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

As of December 31, 2017 and 2016, the City had \$1,225,124 and \$1,113,743, respectively, in restricted net position, which are restricted by state laws regarding use of tax levies and state revenues.

*Flow Assumptions* – When both restricted and unrestricted amounts of fund balances are available for use for expenditures incurred, it is the City’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City’s policy to first use restricted, then committed, then assigned, and then unassigned resources as they are needed.

*New Pronouncements* – For the years ended December 31, 2017 and 2016, the City implemented the provisions of GASB Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 establishes standards for measuring fair value, applying fair value to certain investments, and disclosures related to all fair value measurements. The additional disclosures required by this standard is included in Note 3.

## NOTE 2 – DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the City of Horace maintains deposits at the 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 institution 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 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,

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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.

At years ended December 31, 2017 and 2016, the City's carrying amount of deposits and investments were \$3,750,370 and \$2,061,849, respectively, and the bank balances were \$3,751,039 and \$2,091,011, respectively. Of the bank balances, \$332,347 was covered by Federal Depository Insurance at December 31, 2017 and \$332,923 was covered by Federal Depository Insurance at December 31, 2016. The remaining bank balances at December 31, 2017 and 2016 were covered by securities pledged by the financial institution in the City's name.

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Beyond what is stated in the North Dakota Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk for deposits and investments. As noted above, the City's deposits were all either fully insured or collateralized.

***Investments***

The City may invest idle funds as authorized in North Dakota Statutes, as follows:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- d) Investments in money market accounts.
- e) Obligations of the state.

As outlined above, North Dakota Century Code limits the type of investments allowed to reduce the amount of credit risk to the portfolio. The chart below summarizes the credit quality of the City's investment holdings.

| <b>Investment type</b>  | <b>Credit Rating</b> | <b>12/31/2017</b> | <b>12/31/2016</b> |
|-------------------------|----------------------|-------------------|-------------------|
| Certificates of deposit | Not rated            | \$ 306,350        | \$ 305,493        |
| Money market funds      | Not rated            | 30,032            | 30,005            |
| Total                   |                      | \$ <u>336,382</u> | \$ <u>335,498</u> |

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The chart below summarizes the City's investments using segmented time distribution. North Dakota Century Code limits investing funds primarily in 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.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

|  | <b>Beginning<br/>Total</b> | <b>12 Months<br/>or Less</b> |
|--|----------------------------|------------------------------|
| <b>Investment Type as of December 31, 2017</b> |                            |                              |
| Certificates of deposit                        | \$ 306,350                 | \$ 306,350                   |
| Money market funds                             | 30,032                     | 30,032                       |
| Total  | \$ 336,382                 | \$ 336,382                   |
| <br>   |                            |                              |
|  | <b>Beginning<br/>Total</b> | <b>12 Months<br/>or Less</b> |
| <b>Investment Type as of December 31, 2016</b> |                            |                              |
| Certificates of deposit                        | \$ 305,493                 | \$ 305,493                   |
| Money market funds                             | 30,005                     | 30,005                       |
| Total  | \$ 335,498                 | \$ 335,498                   |

Deposits and investments have been reported as either cash or as investments as follows in the financial statements.

|                                  | <b>12/31/2017</b> | <b>12/31/2016</b> |
|----------------------------------|-------------------|-------------------|
| Reported in governmental funds   | \$ 3,678,795      | \$ 2,048,690      |
| Reported in proprietary funds    | 71,575            | 13,159            |
| Total reported                   | \$ 3,750,370      | \$ 2,061,849      |
| <br>                             |                   |                   |
|                                  | <b>12/31/2017</b> | <b>12/31/2016</b> |
| Disclosed as deposits (above)    | \$ 3,413,988      | \$ 1,726,351      |
| Disclosed as investments (above) | 336,382           | 335,498           |
| Total reported                   | \$ 3,750,370      | \$ 2,061,849      |

**NOTE 3 – FAIR VALUE MEASUREMENTS**

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following tables set forth by level, within the fair value hierarchy, the City's assets at fair value as of December 31:

| Investment type        | 2017              |                   |             |             |
|------------------------|-------------------|-------------------|-------------|-------------|
|                        | Fair Value        | Level 1           | Level 2     | Level 3     |
| Certificate of deposit | \$ 306,350        | \$ 306,350        | \$ -        | \$ -        |
| Money market funds     | 30,032            | 30,032            | -           | -           |
| Total                  | <u>\$ 336,382</u> | <u>\$ 336,382</u> | <u>\$ -</u> | <u>\$ -</u> |

| Investment type        | 2016              |                   |             |             |
|------------------------|-------------------|-------------------|-------------|-------------|
|                        | Fair Value        | Level 1           | Level 2     | Level 3     |
| Certificate of deposit | \$ 305,493        | \$ 305,493        | \$ -        | \$ -        |
| Money market funds     | 30,005            | 30,005            | -           | -           |
| Total                  | <u>\$ 335,498</u> | <u>\$ 335,498</u> | <u>\$ -</u> | <u>\$ -</u> |

**NOTE 4 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

For the years ended December 31, 2017 and 2016, the City had the following interfund receivable/payable balances:

|                      | 2017              | 2016              |
|----------------------|-------------------|-------------------|
| Due to:              | \$ 115,193        | \$ 115,193        |
| General fund         | <u>115,193</u>    | <u>115,193</u>    |
| Due from:            |                   |                   |
| Water and sewer fund | <u>\$ 115,193</u> | <u>\$ 115,193</u> |



**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

For the years ended December 31, 2017 and 2016, the City had the following transfers:

|                          | <u>2017</u>                 | <u>2016</u>                 |
|--------------------------|-----------------------------|-----------------------------|
| Transfer in              |                             |                             |
| General fund             | \$ -                        | \$ 56,712                   |
| Highway fund             | 150,067                     | -                           |
| Debt service fund        | 2,121,706                   | 1,861,884                   |
| Capital projects         | 732,443                     | 661,637                     |
| Other governmental funds | 22,183                      | -                           |
| Other enterprise fund    | -                           | 67,495                      |
|                          | <u>                    </u> | <u>                    </u> |
| Total                    | \$ <u>3,026,399</u>         | \$ <u>2,647,728</u>         |
| Transfer out             |                             |                             |
| General fund             | \$ 304,900                  | \$ -                        |
| Debt service fund        | 2,709,551                   | 2,547,831                   |
| Capital projects fund    | -                           | 43,185                      |
| Other governmental funds | 38                          | 56,712                      |
| Water and sewer fund     | 11,910                      | -                           |
|                          | <u>                    </u> | <u>                    </u> |
| Total                    | \$ <u>3,026,399</u>         | \$ <u>2,647,728</u>         |

The purpose of the transfers in both 2017 and 2016 was to close out funds that the City is no longer using as well as allocating property tax revenues and special assessments that are collected to pay off outstanding bonds.

**NOTE 5 – NOTE RECEIVABLE**

On January 1, 2014, the City entered into a promissory note agreement to loan \$160,000 to the Park District of Horace, North Dakota. Under this agreement, the Park District will repay the loan in monthly installments of \$2,500 with a balloon payment due June 1, 2019. The loan carries an interest rate of 1.5%. At December 31, 2017 and 2016, the receivable had a remaining balance of \$96,674 and \$110,000, respectively.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 6 – LONG-TERM LIABILITIES**

The following changes occurred in long-term liabilities of the City:

*Governmental Activities*

|                                  | Beginning<br>Balance | Increases    | Decreases  | Ending<br>Balance | Due Within<br>One Year |
|----------------------------------|----------------------|--------------|------------|-------------------|------------------------|
| Special assessment bonds payable |                      |              |            |                   |                        |
| 2017                             | \$ 4,400,939         | \$ 5,875,000 | \$ 431,393 | \$ 9,844,546      | \$ 356,710             |
| 2016                             | \$ 4,727,031         | \$ -         | \$ 326,092 | \$ 4,400,939      | \$ 431,393             |

*Business-Type Activities (Proprietary Funds)*

|                       | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance | Due Within<br>One Year |
|-----------------------|----------------------|--------------|-----------|-------------------|------------------------|
| State Revolving Loans |                      |              |           |                   |                        |
| 2017                  | \$ -                 | \$ 2,038,063 | \$ 1,000  | \$ 2,037,063      | \$ 211,000             |
| 2016                  | \$ -                 | \$ -         | \$ -      | \$ -              | \$ -                   |
| Meter deposits        |                      |              |           |                   |                        |
| 2017                  | \$ -                 | \$ -         | \$ -      | \$ -              | \$ -                   |
| 2016                  | \$ 20,350            | \$ -         | \$ 20,350 | \$ -              | \$ -                   |

*Special Assessment Bonds*

The City issues special assessment bonds for various construction projects. These bonds will be repaid from debt service or capital projects funds by amounts levied against the property owners benefited by the project.

Special assessment bonds at December 31, 2017 and 2016 are comprised of the following individual issues:

| Special Assessment Bonds   | 2017    | 2016      |
|--|---------|-----------|
| \$195,330 water stabilization loan from municipal bond bank due in annual installments of \$10,000 to \$15,000 through September 1, 2017; interest at 2.5% | \$ -    | \$ 15,000 |
| \$420,000 of refunding improvement bonds of 2005 due in annual installments of \$30,000 through May 1, 2020; interest at 3.3% to 4.25%                     | 90,000  | 120,000   |
| \$565,000 of refunding improvement bonds of 2007 due in annual installments of \$40,000 to \$45,000 through May 1, 2022; interest at 3.75% to 4.5%         | 200,000 | 240,000   |
| \$565,000 of refunding improvement bonds of 2008 due in annual installments of \$55,000 to \$60,000 through May 1, 2018; interest at 2.35% to 4.0%         | 55,000  | 110,000   |
| \$98,000 of refunding improvement bonds of 2008 due in annual installments of \$4,559 to \$8,966 through November 1, 2024; interest at 4.95%               | 54,546  | 60,939    |

(Continued)

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| <b>Special Assessment Bonds</b>   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| \$750,000 of refunding improvement bonds of 2010 due in annual installments of \$35,000 to \$100,000 through May 1, 2019; interest at 1.00% to 3.25%    | 70,000              | 165,000             |
| \$300,000 of refunding improvement bonds of 2010 due in annual installments of \$25,000 to \$35,000 through May 1, 2021; interest at 2.00% to 3.00%     | 125,000             | 155,000             |
| \$3,590,000 of refunding improvement bonds of 2015 due in annual installments of \$55,000 to \$160,000 through May 1, 2040; interest at 1.10% to 4.00%  | 3,375,000           | 3,535,000           |
| \$5,875,000 of refunding improvement bonds of 2017 due in annual installments of \$279,000 to \$383,800 through May 1, 2042; interest at 1.60% to 4.00% | <u>5,875,000</u>    | <u>-</u>            |
| Total special assessment bonds  | <u>\$ 9,844,546</u> | <u>\$ 4,400,939</u> |

Special assessment bonds debt service requirements to maturity are as follows:

|           | <b>Special Assessments</b> |                     |
|-----------|----------------------------|---------------------|
|           | <b>Bonds Payable</b>       |                     |
|           | <u>Principal</u>           | <u>Interest</u>     |
| 2018      | \$ 356,710                 | \$ 118,311          |
| 2019      | 302,042                    | 109,367             |
| 2020      | 452,390                    | 195,314             |
| 2021      | 432,756                    | 193,912             |
| 2022      | 403,139                    | 190,178             |
| 2023-2027 | 1,802,509                  | 972,349             |
| 2028-2032 | 1,895,000                  | 883,341             |
| 2033-2037 | 2,095,000                  | 626,375             |
| 2038-2042 | <u>2,105,000</u>           | <u>233,500</u>      |
|           | <u>\$ 9,844,546</u>        | <u>\$ 3,522,647</u> |

Interest paid on special assessment bonds during 2017 and 2016 totaled \$136,000 and \$145,877, respectively, all of which was charged to expense.

***State Revolving Fund Loans***

The City issues state revolving fund loans bonds for various utility projects. These bonds will be repaid from debt service or capital projects funds by amounts levied against the utility service fees from property owners.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

State revolving fund loans bonds at December 31, 2017 are comprised of the following individual issues:

|   |                     |
|---|---------------------|
| \$1,340,000 wastewater treatment assessment warrant, series 2016-1 due in annual installments of \$54,000 to \$85,000 through September 1, 2037; interest at 2.0%     | \$ 936,955          |
| \$580,000 of drinking water loan due in annual installments of \$25,000 to \$35,000 through September 1, 2037; interest at 1.5%                                       | 450,705             |
| \$3,192,000 of wastewater treatment assessment warrant, series 2017B due in annual installments of \$132,000 to \$190,000 through September 1, 2037; interest at 1.5% | <u>649,403</u>      |
| Total state revolving fund loans  | <u>\$ 2,037,063</u> |

State revolving loans debt service requirements to maturity are as follows:

|           | State Revolving Fund<br>Loans Payable |                   |
|-----------|---------------------------------------|-------------------|
|           | Principal                             | Interest          |
| 2018      | \$ 211,000                            | 71,420            |
| 2019      | 215,000                               | 79,925            |
| 2020      | 215,000                               | 76,425            |
| 2021      | 220,000                               | 72,925            |
| 2022      | 220,000                               | 69,350            |
| 2023-2027 | 1,200,000                             | 290,675           |
| 2028-2032 | 1,340,000                             | 188,400           |
| 2033-2037 | <u>1,490,000</u>                      | <u>74,200</u>     |
|           | <u>\$ 5,111,000</u> *                 | <u>\$ 923,320</u> |

\* The difference between the outstanding balance presented on the enterprise balance sheet compared to the maturity table presented above is due to the City not drawing down all eligible funds before year-end. The City intends to draw down all funds throughout the course of the utility projects.

Interest paid on state revolving loans during 2017 totaled \$5,730 all of which was charged to expense. There were no interest expenses during 2016 as the loans were issued during 2017.

**Conduit Debt**

On June 6, 2011, the City entered an agreement with Oak Grove Lutheran School, a North Dakota nonprofit corporation, to issue School Facilities Refunding Revenue Bonds, Series 2011 in an aggregate amount not exceeding \$7,815,000 for the purposes of (i) financing the acquisition of an elementary school building located at 2720 32<sup>nd</sup> Avenue South, Fargo, North Dakota, (ii) financing the construction and equipping of a multipurpose fine arts facility, and (iii) financing the construction and equipping of a health and wellness center and renovation of Gorder Gymnasium, located on the campus of Oak Grove Lutheran School. At December 31, 2017 and 2016, the notes had an aggregate outstanding balance of \$654,462 and \$4,819,655, respectively.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

On October 7, 2013, the City adopted a resolution approving the issuance \$4,960,000 Health Care Revenue Note, Series 2013B and \$1,040,000 Health Care Revenue Note, Series 2013C to finance, in part, the acquisition, construction, and equipping of a 96-bed skilled nursing home. At December 31, 2017 and 2016, the notes had an aggregate outstanding balance of \$5,568,023 and \$5,860,560, respectively.

On April 1, 2015, the City entered an agreement with the YMCA of Cass and Clay Counties, a North Dakota nonprofit corporation, to issue Wellness Facilities Revenue Bonds (YMCA of Cass and Clay Counties Project) Series 2015 in an aggregate amount not exceeding \$3,000,000 for the purposes of (i) renovating and constructing an addition to the aquatic facilities located at 400 1<sup>st</sup> Avenue South, Fargo, North Dakota, and (ii) paying the cost of issuance. At December 31, 2017 and 2016, the notes had an aggregate outstanding balance of \$2,752,337 and \$2,919,369, respectively.

Upon repayment of the notes, ownership of the acquired facilities transfers from the lender to the private-sector entity served by the notes. Neither the City, state, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the notes are not reported as liabilities in the accompanying financial statements.

**NOTE 7 – FUND DEFICITS**

The following funds were in a deficit fund balance or net position at December 31:

|   | <u>2017</u>    | <u>2016</u> |
|---|----------------|-------------|
| Debt service funds                        |                |             |
| Street improvements 93-1                  | \$ (1,531,712) | \$ -        |
| Drainage improvement district 2010-1      | (34,200)       | -           |
| Refunding impr bonds 2015                 | (260,097)      | -           |
| Capital project funds                     |                |             |
| Sparks addition 98-1                      | (2,126)        | (2,126)     |
| Billy Harris street paving                | (11,181)       | (11,181)    |
| Street paving - post office road          | (44,080)       | (44,080)    |
| Refunding impr bonds 2005 (refi 1999)     | -              | (1)         |
| Street improvement district 2015-1/52nd   | (14,911)       | (14,911)    |
| Reline project 2016-1                     | (180,531)      | (187,261)   |
| Street improvement district 2015-3/73rd   | (73,033)       | (73,033)    |
| WIS 2016-2 Arrowwood 2nd                  | (198,070)      | (198,070)   |
| Improvement district 2016-3 water looping | (1,272)        | (1,272)     |
| Enterprise funds                          |                |             |
| Water and sewer operating - major         | (2,080,681)    | (102,034)   |

These deficits are anticipated to be remediated by future transfers.

**NOTE 8 – PROPERTY TAXES**

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and 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 on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

**NOTE 9 – PENSION PLAN**

The City of Horace provides a retirement plan for City employees. The plan is a SIMPLE IRA defined contribution plan in which the City contributes an amount established by the governing board, currently 3% of gross salaries for each eligible employee. Employees are immediately 100% vested in all employer contributions. An employee's contribution can be any amount less than or equal to the maximum amount allowed by law. Contributions are determined on base salary and exclude any overtime or bonuses earned by employees. To initially be eligible for the plan, the employee must have earned at least \$5,000 per year during any two preceding years and are expected to earn at least \$5,000 in the current year. Once eligibility requirements are met for plan participation, an employee begins actual participation in the plan on the first day of the first plan year after he/she has met the eligibility requirements. A deduction is made monthly and forwarded to the plan account, which is maintained by Alerus Financial. Upon termination of employment, the employee will receive his or her vested portion of the contribution. The City's share of pension costs for the years ended December 31, 2017 and 2016 were \$7,510 and \$5,874, respectively.

**NOTE 10 – RISK MANAGEMENT**

The City of Horace is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRIF for its general liability, auto and public assets insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$250 million for public assets coverage.

The City of Horace also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City of Horace with blanket fidelity bond coverage in the amount of \$931,000 for the City employees.

The City has workers compensation with the North Dakota Workforce Safety and Insurance. The City provides single health insurance coverage to all full-time employees.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**CITY OF HORACE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 11 – CONTINGENT LIABILITIES**

On September 7, 1976, the City entered into a contract with a developer for installation of water and sewer lines and related infrastructure. The developer's rights under the contract were later assigned to a third party. On August 11, 2009, the City was served with legal papers regarding a civil lawsuit initiated against the City by the above-mentioned assignee to the contract. The lawsuit alleges that the City failed to perform under the September 7, 1976 contract. The litigation is currently in the discovery phase and the City's potential liability under the lawsuit cannot be reasonably estimated. The City's legal counsel intends to vigorously contest the lawsuit.

In October 2014, the City approved the development of the Dream Fields 2014-1 addition. Subsequent to inception of the project, a dispute occurred between the project developer and an outside party over ownership of the southern portion of land included in the development. Currently the parties to the land ownership dispute are working on a resolution. The City completed the development project in 2015.

**NOTE 12 – SUBSEQUENT EVENTS**

On March 15, 2018, the City issued \$450,000 in refunding improvement bonds to be used by the City for Street Improvement District 2015-3, for Water and Sanitary Sewer Improvement District 2016-2 and to pay for the costs of the issuance of the bonds. The first principal payment will commence on May 1, 2019 and the bonds are set to mature on May 1, 2043.

The City has evaluated subsequent events through September 24, 2018, the date which the financial statements were available to be issued.

**CITY OF HORACE**

**SUPPLEMENTAL SCHEDULES  
DECEMBER 31, 2017 AND 2016**



**CITY OF HORACE**  
**BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <u>Over (Under)<br/>Final Budget</u> |
|--|----------------------------|-------------------------|-------------------|--------------------------------------|
| <b>REVENUES</b>                          |                            |                         |                   |                                      |
| Taxes                                    | \$ 417,400                 | \$ 417,400              | \$ 403,847        | \$ (13,553)                          |
| Licenses, permits and fees               | 89,525                     | 89,525                  | 157,857           | 68,332                               |
| Intergovernmental                        | 208,500                    | 208,500                 | 182,657           | (25,843)                             |
| Interest                                 | 625                        | 625                     | 884               | 259                                  |
| Miscellaneous                            | <u>33,000</u>              | <u>33,000</u>           | <u>37,260</u>     | <u>4,260</u>                         |
| Total revenues                           | <u>749,050</u>             | <u>749,050</u>          | <u>782,505</u>    | <u>33,455</u>                        |
| <b>EXPENDITURES</b>                      |                            |                         |                   |                                      |
| Current                                  |                            |                         |                   |                                      |
| General government                       | 599,050                    | 599,050                 | 654,987           | 55,937                               |
| Public safety                            | <u>150,000</u>             | <u>150,000</u>          | <u>139,545</u>    | <u>(10,455)</u>                      |
| Total expenditures                       | <u>749,050</u>             | <u>749,050</u>          | <u>794,532</u>    | <u>45,482</u>                        |
| Deficiency of revenues over expenditures | <u>-</u>                   | <u>-</u>                | <u>(12,027)</u>   | <u>(12,027)</u>                      |
| <b>OTHER FINANCING USES</b>              |                            |                         |                   |                                      |
| Transfers out                            | <u>-</u>                   | <u>-</u>                | <u>(304,900)</u>  | <u>(304,900)</u>                     |
| Net change in fund balances              | <u>-</u>                   | <u>-</u>                | <u>(316,927)</u>  | <u>(316,927)</u>                     |
| Fund balances - Beginning of year        | <u>1,161,972</u>           | <u>1,161,972</u>        | <u>1,161,972</u>  | <u>-</u>                             |
| Fund balances - End of year              | <u>\$ 1,161,972</u>        | <u>\$ 1,161,972</u>     | <u>\$ 845,045</u> | <u>\$ (316,927)</u>                  |

**CITY OF HORACE**  
**BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS**  
**HIGHWAY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance with<br/>Final Budget</u> |
|--|----------------------------|-------------------------|-------------------|---------------------------------------|
| <b>REVENUES</b>                          |                            |                         |                   |                                       |
| Intergovernmental                        | \$ -                       | \$ -                    | \$ 151,992        | \$ 151,992                            |
| <b>EXPENDITURES</b>                      |                            |                         |                   |                                       |
| Current                                  |                            |                         |                   |                                       |
| Public works                             | -                          | -                       | 240,490           | 240,490                               |
| Deficiency of revenues over expenditures | -                          | -                       | (88,498)          | (88,498)                              |
| <b>OTHER FINANCING USES</b>              |                            |                         |                   |                                       |
| Transfers in                             | -                          | -                       | 150,067           | 150,067                               |
| Net change in fund balances              | -                          | -                       | 61,569            | 61,569                                |
| Fund balances - January 1                | 860,208                    | 860,208                 | 860,208           | -                                     |
| Fund balances - December 31              | <u>\$ 860,208</u>          | <u>\$ 860,208</u>       | <u>\$ 921,777</u> | <u>\$ 61,569</u>                      |

**CITY OF HORACE**  
**BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>       | <u>Over (Under)<br/>Final Budget</u> |
|--|----------------------------|-------------------------|---------------------|--------------------------------------|
| <b>REVENUES</b>                          |                            |                         |                     |                                      |
| Taxes                                    | \$ 370,740                 | \$ 370,740              | \$ 368,337          | \$ (2,403)                           |
| Licenses, permits and fees               | 38,325                     | 38,325                  | 127,576             | 89,251                               |
| Intergovernmental                        | 178,900                    | 178,900                 | 202,113             | 23,213                               |
| Interest                                 | 750                        | 750                     | 615                 | (135)                                |
| Miscellaneous                            | <u>6,000</u>               | <u>6,000</u>            | <u>-</u>            | <u>(6,000)</u>                       |
| Total revenues                           | <u>594,715</u>             | <u>594,715</u>          | <u>698,641</u>      | <u>103,926</u>                       |
| <b>EXPENDITURES</b>                      |                            |                         |                     |                                      |
| Current                                  |                            |                         |                     |                                      |
| General government                       | 661,715                    | 661,715                 | 770,531             | 108,816                              |
| Public safety                            | <u>32,000</u>              | <u>32,000</u>           | <u>30,885</u>       | <u>(1,115)</u>                       |
| Total expenditures                       | <u>693,715</u>             | <u>693,715</u>          | <u>801,416</u>      | <u>107,701</u>                       |
| Deficiency of revenues over expenditures | <u>(99,000)</u>            | <u>(99,000)</u>         | <u>(102,775)</u>    | <u>(3,775)</u>                       |
| <b>OTHER FINANCING SOURCES (USES)</b>    |                            |                         |                     |                                      |
| Transfers in                             | <u>-</u>                   | <u>-</u>                | <u>56,712</u>       | <u>56,712</u>                        |
| Net change in fund balances              | <u>(99,000)</u>            | <u>(99,000)</u>         | <u>(46,063)</u>     | <u>52,937</u>                        |
| Fund balances - January 1                | <u>1,208,035</u>           | <u>1,208,035</u>        | <u>1,208,035</u>    | <u>-</u>                             |
| Fund balances - December 31              | <u>\$ 1,109,035</u>        | <u>\$ 1,109,035</u>     | <u>\$ 1,161,972</u> | <u>\$ 52,937</u>                     |

CITY OF HORACE  
 BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS  
 HIGHWAY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

|                             | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Over (Under)<br/>Final Budget</u> |
|-----------------------------|----------------------------|-------------------------|---------------|--------------------------------------|
| REVENUES                    |                            |                         |               |                                      |
| Intergovernmental           | \$ 177,462                 | \$ 177,462              | \$ 147,817    | \$ (29,645)                          |
| EXPENDITURES                |                            |                         |               |                                      |
| Current                     |                            |                         |               |                                      |
| Public works                | -                          | -                       | 102,376       | 102,376                              |
| Net change in fund balances | 177,462                    | 177,462                 | 45,441        | (132,021)                            |
| Fund balances - January 1   | 814,767                    | 814,767                 | 814,767       | -                                    |
| Fund balances - December 31 | \$ 992,229                 | \$ 992,229              | \$ 860,208    | \$ (132,021)                         |

**CITY OF HORACE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*Budgetary Information:*

- a) The City commission adopts an appropriated budget on the modified cash basis of accounting.
- b) Annually on or before September 10<sup>th</sup>, the City prepares a preliminary budget. NDCC Section 40-40-04.
- c) The preliminary budget should include the estimated revenues and appropriations for the general fund, each special revenue fund and each debt service fund of the City. NDCC Section 40-40-05.
- d) The City commission shall meet and hear any and all protests or objections to the items or amounts set forth in the preliminary budget. At the hearing, the City commission shall make any changes in the items or amounts shown in the preliminary budget. The final budget is prepared which includes a summary of the amounts levied for each fund and the total amount levied. NDCC Section 40-40-08.
- e) The City commission, on or before October 7th, completes the final budget. NDCC Section 40-40-09.
- f) Each budget is controlled by the City auditor at the revenue and expenditure function/object level.
- g) The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC Section 57-15-31.1.
- h) All appropriations lapse at year-end.

**NOTE 2 – LEGAL COMPLIANCE – BUDGETS**

Expenditures exceeded budget years ended December 31 by the following amounts:

|              | 2017       | 2016       |
|--------------|------------|------------|
| General fund | \$ 45,482  | \$ 107,701 |
| Highway fund | \$ 240,490 | \$ 102,376 |

No remedial action is anticipated or required by the City regarding these excess expenditures.

**CITY OF HORACE**  
**SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  | Balance<br>12/31/16 | Receipts   | Transfers<br>In | Other<br>Financing<br>Sources | Transfers<br>Out | Disbursements | Balance<br>12/31/17 |
|--|---------------------|------------|-----------------|-------------------------------|------------------|---------------|---------------------|
| <b>MAJOR GOVERNMENTAL FUNDS</b>                  |                     |            |                 |                               |                  |               |                     |
| General fund                                     | \$ 1,161,972        | \$ 782,504 | -               | \$ -                          | \$ 304,900       | \$ 794,531    | \$ 845,045          |
| Highway fund                                     | 860,208             | 151,992    | 150,067         | -                             | -                | 240,490       | 921,777             |
| <b>Total debt service funds - major fund</b>     | 1,57,562            | 435,164    | -               | -                             | 2,124,438        | -             | (1,531,712)         |
| Street improvements 93-1                         | -                   | -          | 107,871         | -                             | 15,375           | 15,375        | 77,121              |
| Lagoon expansion 97-98                           | -                   | -          | 468,430         | -                             | 58,300           | 59,451        | 350,679             |
| Water and sewer 02-1/streets 02-2                | -                   | -          | 67,641          | -                             | 9,410            | 9,410         | 48,821              |
| Improvement district 04-3                        | -                   | -          | 96,945          | -                             | 34,462           | -             | 62,483              |
| Rud's 1st and 2nd addition                       | -                   | -          | 4,790           | -                             | -                | -             | 4,790               |
| Lakeview Heights addition                        | -                   | -          | 457,462         | -                             | 49,700           | 50,863        | 356,899             |
| Street paving 07-1 and 07-2                      | -                   | -          | 65,388          | -                             | -                | -             | 65,388              |
| Sanitary sewer relocate 07-2                     | -                   | -          | 828,429         | -                             | 98,819           | 99,973        | 629,637             |
| Refunding impr bonds 2010 (refi 2003 and 2005)   | -                   | -          | -               | -                             | 34,200           | -             | (34,200)            |
| Drainage improvement district 2010-1             | -                   | -          | -               | -                             | 260,097          | -             | (260,097)           |
| Refunding impr bonds 2015                        | -                   | -          | 22,050          | -                             | 22,050           | -             | -                   |
| Reline project 2016-1                            | -                   | -          | 2,700           | -                             | 2,700            | -             | -                   |
| Water improvement district 2016-3                | -                   | -          | -               | -                             | -                | -             | -                   |
| <b>Total</b>                                     | 1,57,562            | 435,164    | 2,121,706       | -                             | 2,709,551        | 235,072       | (230,191)           |
| <b>Total capital projects funds - major fund</b> | (2,126)             | -          | -               | -                             | -                | -             | (2,126)             |
| Sparks addition 98-1                             | (11,181)            | -          | -               | -                             | -                | -             | (11,181)            |
| Billy Harris street paving                       | (44,080)            | -          | -               | -                             | -                | -             | (44,080)            |
| Street paving - post office road                 | (1)                 | -          | -               | -                             | -                | -             | -                   |
| Refunding impr bonds 2005 (refi 1999)            | 2                   | -          | 35,622          | -                             | -                | 35,621        | -                   |
| Drainage improvement district 10-01              | -                   | -          | 35,363          | -                             | -                | 35,365        | -                   |
| Dream Fields 2014-1                              | 164,491             | -          | 146,205         | -                             | -                | 95,488        | 215,208             |
| Street improvement district 2015-1/52nd          | (14,911)            | -          | 87,112          | -                             | -                | 87,112        | (14,911)            |
| Prairie Way 2015-2                               | 308,784             | -          | 343,270         | -                             | -                | 343,270       | 308,784             |
| Reline project 2016-1                            | (187,261)           | -          | 6,730           | -                             | -                | -             | (180,531)           |
| Street improvement district 2015-3/73rd          | (73,033)            | -          | 24,026          | -                             | -                | 24,026        | (73,033)            |
| WIS 2016-2 Arrowwood 2nd                         | (198,070)           | -          | 47,767          | -                             | -                | 47,767        | (198,070)           |
| Improvement district 2016-3 water looping        | (1,272)             | -          | -               | -                             | -                | -             | (1,272)             |
| Lost River 1&2 - 2017-1                          | -                   | -          | -               | 5,875,000                     | -                | 3,866,606     | 2,008,394           |
| Street Imp Dist 2017-4                           | -                   | -          | 2,045           | -                             | -                | 2,045         | -                   |
| Street Imp Dist 2017-7                           | -                   | -          | 2,305           | -                             | -                | 2,305         | -                   |
| Street Imp Dist 2017-8                           | -                   | -          | 1,998           | -                             | -                | 1,998         | -                   |
| <b>Total</b>                                     | (58,658)            | -          | 732,443         | 5,875,000                     | -                | 4,541,603     | 2,007,182           |
| Sales tax fund                                   | -                   | 185,167    | -               | -                             | -                | -             | 185,167             |

(Continued)

CITY OF HORACE

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017

|                                    | Balance<br>12/31/16 | Receipts            | Transfers<br>In     | Other<br>Financing<br>Sources | Transfers<br>Out    | Disbursements       | Balance<br>12/31/17 |
|------------------------------------|---------------------|---------------------|---------------------|-------------------------------|---------------------|---------------------|---------------------|
| <b>NONMAJOR GOVERNMENTAL FUNDS</b> |                     |                     |                     |                               |                     |                     |                     |
| Social security                    | 17,739              | 24                  | 22,183              | -                             | -                   | -                   | 39,946              |
| City's share of specials           | 25,062              | 38                  | -                   | -                             | 38                  | -                   | 25,062              |
| Total                              | 42,801              | 62                  | 22,183              | -                             | 38                  | -                   | 65,008              |
| <b>TOTAL GOVERNMENTAL FUNDS</b>    | <u>2,163,885</u>    | <u>1,554,889</u>    | <u>3,026,399</u>    | <u>5,875,000</u>              | <u>3,014,489</u>    | <u>5,811,696</u>    | <u>3,793,988</u>    |
| <b>ENTERPRISE FUND</b>             |                     |                     |                     |                               |                     |                     |                     |
| Water and sewer operating - major  | (102,034)           | 355,799             | -                   | -                             | 11,910              | 2,322,536           | (2,080,681)         |
| <b>TOTAL REPORTING ENTITY</b>      | <u>\$ 2,061,851</u> | <u>\$ 1,910,688</u> | <u>\$ 3,026,399</u> | <u>\$ 5,875,000</u>           | <u>\$ 3,026,399</u> | <u>\$ 8,134,232</u> | <u>\$ 1,713,307</u> |

CITY OF HORACE

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016

|  | Balance<br>12/31/15 | Receipts   | Transfers<br>In | Other<br>Financing<br>Sources (Uses) | Transfers<br>Out | Disbursements | Balance<br>12/31/16 |
|--|---------------------|------------|-----------------|--------------------------------------|------------------|---------------|---------------------|
| <b>MAJOR GOVERNMENTAL FUNDS</b>                  |                     |            |                 |                                      |                  |               |                     |
| General fund                                     | \$ 1,208,035        | \$ 698,641 | \$ 56,712       | \$ -                                 | \$ -             | \$ 801,416    | \$ 1,161,972        |
| Highway fund                                     | 814,767             | 147,817    | -               | -                                    | -                | 102,376       | 860,208             |
| <b>Total debt service funds - major fund</b>     | 1,958,240           | 449,349    | -               | -                                    | 2,250,023        | 4             | 157,562             |
| Street improvements 93-1                         | (76,635)            | -          | 92,496          | -                                    | -                | 15,861        | -                   |
| Lagoon expansion 97-98                           | (347,325)           | -          | 408,979         | -                                    | -                | 61,654        | -                   |
| Water and sewer 02-1/streets 02-2                | (48,823)            | -          | 58,231          | -                                    | -                | 9,408         | -                   |
| Improvement district 04-3                        | (96,945)            | -          | 96,945          | -                                    | -                | -             | -                   |
| Rud's 1st and 2nd addition                       | (4,790)             | -          | 4,790           | -                                    | -                | -             | -                   |
| Lakeview heights addition                        | (56,313)            | -          | 406,599         | -                                    | 297,808          | 52,478        | -                   |
| Street paving 07-1 and 07-2                      | (65,388)            | -          | 65,388          | -                                    | -                | -             | -                   |
| Sanitary sewer relocate 07-3                     | (625,681)           | -          | 728,456         | -                                    | -                | 102,775       | -                   |
| Refunding impr bonds 2010 (refi 2003 and 2005)   | 636,340             | 449,349    | 1,861,884       | -                                    | 2,547,831        | 242,180       | 157,562             |
| <b>Total</b>                                     |                     |            |                 |                                      |                  |               |                     |
| <b>Total capital projects funds - major fund</b> | (2,126)             | -          | -               | -                                    | -                | -             | (2,126)             |
| Sparks addition 98-1                             | (11,181)            | -          | -               | -                                    | -                | -             | (11,181)            |
| Billy Harris street paving                       | (16,500)            | -          | 16,500          | -                                    | -                | -             | -                   |
| Storm sewer 2000-1                               | (74,511)            | -          | 117,696         | -                                    | 43,185           | -             | -                   |
| Refunding impr bonds 2004 (refi 1997)            | (44,080)            | -          | -               | -                                    | -                | -             | (44,080)            |
| Street paving - post office road                 | (173,469)           | -          | 210,256         | -                                    | -                | 36,788        | (1)                 |
| Refunding impr bonds 2005 (refi 1999)            | (124,183)           | -          | 160,227         | -                                    | -                | 36,042        | 2                   |
| Drainage improvement district 10-01              | 255,798             | -          | 52,319          | -                                    | -                | 143,626       | 164,491             |
| Dream Fields 2014-1                              | 61,974              | -          | 52,320          | -                                    | -                | 129,205       | (14,911)            |
| Street improvement district 2015-1/52nd          | 606,110             | -          | 52,319          | -                                    | -                | 349,645       | 308,784             |
| Prairie Way 2015-2                               | -                   | -          | -               | -                                    | -                | 187,261       | (187,261)           |
| Refine project 2016-1                            | -                   | -          | -               | -                                    | -                | 73,033        | (73,033)            |
| Street improvement district 2015-3/73rd          | -                   | -          | -               | -                                    | -                | 198,070       | (198,070)           |
| WIS 2016-2 Arrowwood 2nd                         | -                   | -          | -               | -                                    | -                | 1,272         | (1,272)             |
| Improvement district 2016-3 water looping        | -                   | -          | -               | -                                    | -                | -             | -                   |
| <b>Total</b>                                     | 477,832             | 661,637    | 661,637         | -                                    | 43,185           | 1,154,942     | (58,638)            |

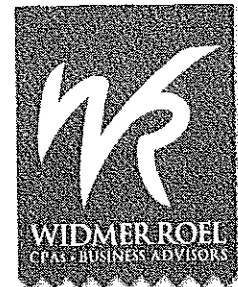
(Continued)



CITY OF HORACE

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016

|   | Balance<br>12/31/15 | Receipts            | Transfers<br>In     | Other<br>Financing<br>Sources (Uses) | Transfers<br>Out    | Disbursements       | Balance<br>12/31/16 |
|---|---------------------|---------------------|---------------------|--------------------------------------|---------------------|---------------------|---------------------|
| <b>NONMAJOR GOVERNMENTAL FUNDS</b>        |                     |                     |                     |                                      |                     |                     |                     |
| Social security                           | 17,278              | 461                 | -                   | -                                    | -                   | -                   | 17,739              |
| City's share of specials                  | 21,528              | 3,534               | -                   | -                                    | -                   | -                   | 25,062              |
| Gaming fund                               | 3,541               | -                   | -                   | -                                    | 3,541               | -                   | -                   |
| Sleepy Hollow                             | 12,397              | -                   | -                   | -                                    | 12,397              | -                   | -                   |
| Riverdale                                 | 40,774              | -                   | -                   | -                                    | 40,774              | -                   | -                   |
| Total                                     | 95,518              | 3,995               | -                   | -                                    | 56,712              | -                   | 42,801              |
| <b>TOTAL GOVERNMENTAL FUNDS</b>           | <b>3,232,492</b>    | <b>1,299,802</b>    | <b>2,580,233</b>    | <b>-</b>                             | <b>2,647,728</b>    | <b>2,300,914</b>    | <b>2,163,885</b>    |
| <b>ENTERPRISE FUNDS</b>                   |                     |                     |                     |                                      |                     |                     |                     |
| Water and sewer operating - major         | (135,543)           | 420,130             | -                   | -                                    | -                   | 386,621             | (102,034)           |
| Water meter/chem feed building - nonmajor | (67,495)            | -                   | 67,495              | -                                    | -                   | -                   | -                   |
| <b>TOTAL ENTERPRISE FUNDS</b>             | <b>(203,038)</b>    | <b>420,130</b>      | <b>67,495</b>       | <b>-</b>                             | <b>-</b>            | <b>386,621</b>      | <b>(102,034)</b>    |
| <b>TOTAL REPORTING ENTITY</b>             | <b>\$ 3,029,454</b> | <b>\$ 1,719,932</b> | <b>\$ 2,647,728</b> | <b>\$ -</b>                          | <b>\$ 2,647,728</b> | <b>\$ 2,687,535</b> | <b>\$ 2,061,851</b> |



4334 18th Avenue S.  
Ste 101  
Fargo, ND 58103-7414

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council  
City of Horace  
Horace, North Dakota

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Horace (the City) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City of Horace's basic financial statements and have issued our report thereon dated September 24, 2018. Our report includes an adverse opinion on such financial statements because of management not recording capital assets in governmental activities, the business-type activities, and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities, business-type activities, and the major proprietary fund.

***Internal Control over Financial Reporting***

In connection with our engagement to audit the financial statements of the City of Horace, we considered the City of Horace's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Horace's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct,

misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2017-001, 2017-005, 2017-006, and 2017-007.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2017-008.

### *Compliance and Other Matters*


In connection with our engagement to audit the financial statements of the **City of Horace** we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-002, 2017-003, and 2017-004.

### *City of Horace's Response to Findings*

**City of Horace's** response to the findings identified in our audits is described in the accompanying schedule of findings and responses. **City of Horace's** response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

### *Purpose of this Report*

The purpose of this report is intended 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 engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Fargo, North Dakota  
September 24, 2018

CITY OF HORACE  
 SCHEDULE OF FINDINGS AND RESPONSES  
 DECEMBER 31, 2017 AND 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

*Financial Statements*

Type of auditor's report issued:

|                                      |                                  |
|--------------------------------------|----------------------------------|
| Governmental activities              | Adverse – modified cash basis    |
| Business-type activities             | Adverse – modified cash basis    |
| Major governmental funds             | Unmodified – modified cash basis |
| Major proprietary fund               | Adverse – modified cash basis    |
| Aggregate remaining fund information | Unmodified – modified cash basis |

Internal control over financial reporting:

|   |                  |                             |
|---|------------------|-----------------------------|
| Material weakness(es) identified?   | <u>  X  </u> yes | <u>      </u> no            |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <u>  X  </u> yes | <u>      </u> none reported |

|   |                  |                  |
|---|------------------|------------------|
| Noncompliance material to financial statements noted? | <u>  X  </u> yes | <u>      </u> no |
|---|------------------|------------------|

**CITY OF HORACE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2017 AND 2016**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**FINDING 2017-001 (MATERIAL WEAKNESS) - CAPITAL ASSET RECORDS**

**Condition**

The City of Horace does not maintain capital asset records sufficient for financial reporting purposes under *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"). Furthermore, the City does not have a capital asset policy which includes a capitalization threshold, useful lives and depreciation methods.

**Criteria**

Accounting principles generally accepted in the United States of America require the financial statements include the capital assets, net of accumulated depreciation. GASB 34 requires that capital asset records include infrastructure constructed after January 1, 2004.

**Effect**

The omission of capital assets from the financial statements results in an incomplete presentation of the City of Horace's financial statements and an adverse audit opinion on the governmental activities, the business-type activities and the major proprietary fund.

**Recommendation**

We recommend that the City adopt a capital asset policy, which serves as a guideline for financial reporting of capital assets. We further recommend that the City prepare a schedule of capital assets, which will allow the City to determine the useful lives and annual depreciation expense or determine if the City should implement the modified approach for infrastructure. This is a repeat recommendation.

**Views of Responsible Officials**

The City Auditor will work with office staff to create a capitalization policy that can be presented to the City Council for approval. Then the City Auditor can work to identify assets purchased in prior years and take steps to prepare a depreciation schedule.

**FINDING 2017-002 (MATERIAL NONCOMPLIANCE) – BUDGETS**

**Condition**

The City does not include budgeted amounts for the highway fund in 2017 nor the debt service funds for both years audited in its budget-to-actual financial statements. Moreover, the City's expenditures exceeded the final budget for the general fund and the highway fund in 2017 and 2016.

**Criteria**

NDCC 40-40-05 requires municipalities to budget for the general fund, each special revenue fund, and each debt service fund. Furthermore, NDCC 40-40-15 provides for joint and several liabilities for City Council members for overspent budgets.

**CITY OF HORACE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2017 AND 2016**

**Effect**

The City may be in violation of NDCC 40-40-15, and the City Council exposes itself to potential joint and several liabilities for any overspent budgets. Finally, the City's financial statements are exposed to an increased risk of errors and fraud related to expenditures.

**Recommendation**

We recommend that the City budget for all funds required by NDCC 40-40-05, including all inter-fund transfers. We recommend that the budgetary information for all funds be provided with the City's financial statements for review and approval of responsible officials. We further recommend that the governing board amend the budget for any funds to be overspent. This is a repeat recommendation.

**Views of Responsible Officials**

The City will begin to budget for all funds and inter-fund transfers.

**FINDING 2017-003 (MATERIAL NONCOMPLIANCE) – POSTING OF SPECIAL ASSESSMENTS**

**Condition**

When the City receives special assessments from the county, the assessments are posted to the Street Improvements 93-1 fund. However, payments are paid out of the individual debt service funds. This has resulted in a surplus in the Streets Improvements 93-1 fund and deficit balance in the other debt service funds.

**Criteria**

The City's bond covenants and NDCC 21-03 require special assessments levied for debt service purposes to be used for that purpose.

**Effect**

There is a risk of non-compliance with debt covenants and with NDCC 21-03. Also, if the special assessments are used for purposes other than retirement of the related bond issue, the City runs the risk of running out of cash later in the bond repayment process.

**Recommendation**

We recommend that the City obtain information enabling it to determine the special assessments by special assessment district. We further recommend that the correct amounts of special assessments by district be allocated to the individual debt service funds. This is a repeat recommendation.

**Views of Responsible Officials**

The City Auditor has begun the process of working with the City's Assessor in an attempt to resolve. Some progress has been made, but still work in process.

**CITY OF HORACE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2017 AND 2016**

**FINDING 2017-004 (MATERIAL NONCOMPLIANCE) – USE OF CAPITAL PROJECTS FUNDS**

**Condition**

It was noted that some of the City's capital projects funds are being utilized to make debt service payments.

**Criteria**

Bond covenants and NDCC 21-03-08 require bond proceeds to be kept in a fund "separate and distinct from all other funds, to be used for the purpose for which it was borrowed." Bond covenants and NDCC 21-03 refer to the creation of a bond fund or sinking fund, "separate and apart from all other funds of the issuer," to which special assessments should be deposited and from which bond principal and interest payments should be made.

**Effect**

Special assessments may be improperly used for purposes other than those for which they were levied. Furthermore, the City may be out of compliance with NDCC 21-03-08 and various debt covenants.

**Recommendation**

We recommend that, for each new improvement project, the City establish both a separate capital projects fund and a separate debt service fund. The bond proceeds should be deposited in the capital projects fund and used only for the purposes for which it was borrowed (i.e., construction and related costs). When the project is complete, any remaining funds should be transferred into the debt service fund.

All special assessments levied for the specific project should be deposited into the debt service fund, and all debt principal and interest payments should be made from the debt service fund.

We further recommend that the City evaluate its current existing funds. It is likely that some of the funds currently classified as capital projects funds are more accurately described as debt service funds for financial reporting purposes. This is a repeat recommendation.

**Views of Responsible Officials**

The City is implementing this process going forward.

**FINDING 2017-005 (MATERIAL WEAKNESS) - SEGREGATION OF DUTIES**

**Condition**

We believe the limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

**Criteria**

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

**CITY OF HORACE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2017 AND 2016**

**Effect**

The financial statements are susceptible to misstatements due to errors or fraud.

**Recommendation**

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. This is a repeat recommendation.

**Views of Responsible Officials**

The City is aware of this weakness, however, it is not practical at this time to hire sufficient staff to segregate duties. The City Auditor will discuss with the Council moving forward.

**FINDING 2017-006 (MATERIAL WEAKNESS) – MATERIAL AUDIT ADJUSTMENTS**

**Condition**

During testing of the beginning fund balances, it was noted that the City did not record the prior year proposed audit adjustments and some of the current year transactions were posted directly to fund balance. It was also noted that there was only one general ledger cash account which caused certain transactions to be posted across funds.

**Criteria**

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a control to identify that the City's transactions are balanced by fund.

**Effect**

The financial statements are susceptible to misstatements due to errors or fraud.

**Recommendation**

We recommend that the City create general ledger cash accounts for all of the City's funds to properly track the revenue and expenses that are being recorded in those funds, instead of posting directly to fund balance of the General Fund cash account.

We also recommend that the City evaluate their current accounting software and explore potential options that include financial reporting to provide all users with meaningful reports.

**Views of Responsible Officials**

The City is aware of the transactions crossing funds in the accounting software and believe that the City's operations have outgrown the software. The City is looking to purchase new software that is more compatible with the City's operations.



**CITY OF HORACE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2017 AND 2016**

**FINDING 2017-007 (MATERIAL WEAKNESS) – FINANCIAL STATEMENT PREPARATION**

**Condition**

Widmer Roel PC assists management in preparing financial statements that are presented, including note disclosures, on the modified cash basis of accounting.

**Criteria**

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles, or as applicable, another comprehensive basis of accounting.

**Effect**

Without the assistance of the auditors, the financial statements could be materially misstated or omit material financial statement disclosures.

**Recommendation**

We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures. This is a repeat recommendation.

**Views of Responsible Officials**

The City has noted this as a control weakness.

**FINDING 2017-008 (SIGNIFICANT DEFICIENCY) – HORACE PARK DISTRICT LOAN REPAYMENT**

**Condition**

During the audit, it was noted that the last payment received from the Horace Park District was for the March 2016 installment based on the original repayment plan.

**Criteria**

The City should be receiving timely payment for the note receivable balance.

**Effect**

The Park District may not be able to repay the loan and the City would have to write-off the outstanding balance.

**Recommendation**

We recommend that the City create a plan to collect the payments from the Horace Park District, or create a new repayment schedule.

**CITY OF HORACE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2017 AND 2016**

**Views of Responsible Officials**

The City is working to develop a recommendation on how to handle the outstanding loan payments that are delinquent.