

AUDIT REPORT

CITY OF HARVEY
Harvey, North Dakota

For the Year Ended December 31, 2021

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HARVEY
Harvey, North Dakota

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CITY OF HARVEY
Harvey, North Dakota

CITY OFFICIALS

Rick Eckart	Mayor
Milo Baltrusch	Council President
Shelley Svoboda	Council Vice President
Ann Adams	Council Member
Melissa Anderson	Council Member
Susan Bartz	Council Member
Chris Kara	Council Member
Karen Nordby	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Harvey
Harvey, North Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harvey, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harvey, Harvey, North Dakota, as of December 31, 2021, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.

Basis for Opinions

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

Emphasis of Matter – 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for 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 misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The budgeting comparison information, the schedule of employer's share of net pension liability and the schedule of fund activity arising from cash transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgeting comparison information, the schedule of employer's share of net pension liability, and the schedule of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2022 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the city's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

March 25, 2022

CITY OF HARVEY
Harvey, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	2,645,285.52	1,355,983.72	4,001,269.24
Advances to Economic Development Projects	35,450.09		35,450.09
Capital Assets (net of accumulated depreciation):			
Land	108,853.00	9,200.00	118,053.00
Buildings and Infrastructure	13,837,018.00	6,848,403.00	20,685,421.00
Machinery and Vehicles	690,901.00	143,097.00	833,998.00
 Total Capital Assets	 14,636,772.00	 7,000,700.00	 21,637,472.00
 Total Assets	 17,317,507.61	 8,356,683.72	 25,674,191.33
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	808,000.00		808,000.00
Revenue Bonds Payable	56,000.00	155,697.18	211,697.18
Due After One Year:			
Special Assessment Bonds Payable	7,108,000.00		7,108,000.00
Revenue Bonds Payable	596,000.00	3,769,887.46	4,365,887.46
Compensated Absences	36,843.79		36,843.79
 Total Liabilities	 8,604,843.79	 3,925,584.64	 12,530,428.43
NET POSITION:			
Net Investment in Capital Assets	6,068,772.00	3,075,115.36	9,143,887.36
Restricted for:			
Debt Service	954,322.88	1,126,634.19	2,080,957.07
Customer Insurance		8,094.91	8,094.91
Water Deposits		15,377.20	15,377.20
Mosquito Control		18,283.09	18,283.09
Special Purposes	913,052.98		913,052.98
General Infrastructure Development	704,472.11		704,472.11
Unrestricted	72,043.85	187,594.33	259,638.18
 Total Net Position	 8,712,663.82	 4,431,099.08	 13,143,762.90

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2021

Functions/Programs	Net (Expense) Revenue and Change in Net Position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
<u>Governmental Activities:</u>						
General Government	237,483.29	37,639.32	14,330.00	(185,513.97)		(185,513.97)
Public Safety	469,755.98	5,276.00	77,334.88	(387,145.10)		(387,145.10)
Streets and Public Works	975,571.94	63,963.83	730,397.64	(181,210.47)		(181,210.47)
Health and Welfare	153,835.17	127,613.00	25,378.91	(843.26)		(843.26)
Culture and Recreation	365,199.10	17,548.00	193,211.27	(154,439.83)		(154,439.83)
Urban and Economic Development	317,775.89		8,514.95	(309,260.94)		(309,260.94)
Other	153,070.35			(153,070.35)		(153,070.35)
Interest on Long-Term Debt	140,188.26		893,919.40	753,731.14		753,731.14
Advisory Fees	102,000.00			(102,000.00)		(102,000.00)
Total Governmental Activities	2,914,879.98	252,040.15	1,943,087.05	(719,752.78)		(719,752.78)
<u>Business-Type Activities:</u>						
Water	442,178.59	397,763.95			(44,414.64)	(44,414.64)
Sewer	124,808.14	109,774.68			(15,033.46)	(15,033.46)
Garbage	356,607.57	337,172.39			(19,435.18)	(19,435.18)
Water Main Replacement	194,721.01	181,784.86			(12,936.15)	(12,936.15)
Mosquito Control	5,824.15	10,336.00			4,511.85	4,511.85
Total Business-Type Activities	1,124,139.46	1,036,831.88			(87,307.58)	(87,307.58)
Total Primary Government	4,039,019.44	1,288,872.03	1,943,087.05	(719,752.78)	(87,307.58)	(807,060.36)
<u>General Revenues:</u>						
<u>Taxes:</u>						
Property taxes; levied for general purposes			344,735.92		344,735.92	
Property taxes; levied for special purposes			66,476.98		66,476.98	
City sales taxes			475,262.83		475,262.83	
City lodging taxes			12,917.92		12,917.92	
Cigarette taxes			4,558.18		4,558.18	
Intergovernmental revenue not restricted to specific programs			149,643.80		149,643.80	
Earnings on investments and other revenue			208,477.24	16,957.75	225,434.99	
Transfers			(22,000.00)	22,000.00	-	
Total General Revenues and Transfers			1,240,072.87	38,957.75	1,279,030.62	
Change in Net Position			520,320.09	(48,349.83)	471,970.26	
Net Position - January 1			7,527,990.73	4,479,448.91	12,007,439.64	
Prior Period Adjustment (Note 14)			664,353.00		664,353.00	
Net Position - January 1 as Restated			8,192,343.73	4,479,448.91	12,671,792.64	
Net Position - December 31			8,712,663.82	4,431,099.08	13,143,762.90	

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2021

	Major Funds				Total Governmental Funds
	General	Street Improvement 2016	Water Treatment Plant	Other Governmental Funds	
	ASSETS:				
Cash, Cash Equivalents and Investments	20,240.15	494,009.76	314,529.80	1,816,505.81	2,645,285.52
Advances to Economic Develop. Projects				35,450.09	35,450.09
Interfund Receivables	141,533.29				141,533.29
Total Assets	161,773.44	494,009.76	314,529.80	1,851,955.90	2,822,268.90
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payables				141,533.29	141,533.29
Fund Balances:					
Nonspendable:					
Economic Development Loans				35,450.09	35,450.09
Restricted for:					
General Government				5,421.30	5,421.30
Street and Public Works				48,596.98	48,596.98
Economic Development				417,915.30	417,915.30
Health and Welfare				13,083.85	13,083.85
Culture and Recreation				337,706.15	337,706.15
Emergency				1,399.28	1,399.28
City Share of Specials				46,596.59	46,596.59
General Infrastructure Development				704,472.11	704,472.11
Airport				6,883.44	6,883.44
Debt Service		494,009.76	314,529.80	145,783.32	954,322.88
Assigned to:					
Street and Public Works				23,030.06	23,030.06
Economic Development				34,856.78	34,856.78
Equipment Purchases	48,036.75			30,760.65	78,797.40
Unassigned	113,736.69			(141,533.29)	(27,796.60)
Total Fund Balances	161,773.44	494,009.76	314,529.80	1,710,422.61	2,680,735.61
Total Liabilities and Fund Balances	161,773.44	494,009.76	314,529.80	1,851,955.90	2,822,268.90

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2021

Total Fund Balances for Governmental Funds		2,680,735.61
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	21,658,841.00	
Less Accumulated Depreciation	<u>(7,022,069.00)</u>	
Net Capital Assets		14,636,772.00
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. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2021 are:		
Special Assessments Bonds Payable	(7,916,000.00)	
Revenue Bonds Payable	(652,000.00)	
Compensated Absences	<u>(36,843.79)</u>	
Total Long-Term Liabilities		<u>(8,604,843.79)</u>
Total Net Position of Governmental Activities		<u>8,712,663.82</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2021

	Major Funds				Total Governmental Funds
	General	Street Improvement 2016	Water Treatment Plant	Other Governmental Funds	
Revenues:					
Taxes	344,735.92			554,657.73	899,393.65
Special Assessments	11,108.87	626,258.56	183,274.46	73,277.51	893,919.40
Licenses, Permits and Fees	35,633.96		983.60	127,613.00	164,230.56
Intergovernmental	259,597.92			757,528.49	1,017,126.41
Charges for Services	2,005.36			80,528.23	82,533.59
Fines and Forfeits	5,276.00				5,276.00
Miscellaneous	157,244.09	560.00		236,916.37	394,720.46
Total Revenues	815,602.12	626,818.56	184,258.06	1,830,521.33	3,457,200.07
Expenditures:					
Current:					
General Government	217,131.72				217,131.72
Public Safety	432,827.46			12,779.52	445,606.98
Streets and Public Works		9,307.50		440,102.44	449,409.94
Health and Welfare				153,835.17	153,835.17
Culture and Recreation	83,237.25			273,229.85	356,467.10
Urban and Economic Development				317,775.89	317,775.89
Other				41,627.35	41,627.35
Debt Service:					
Principal		6,771,433.38	1,261,000.00	765,000.00	8,797,433.38
Interest and Service Charges		93,376.69	14,140.32	32,671.25	140,188.26
Advisory Fees		102,000.00			102,000.00
Total Expenditures	733,196.43	6,976,117.57	1,275,140.32	2,037,021.47	11,021,475.79
Excess (Deficiency) of Revenue Over Expenditures	82,405.69	(6,349,299.01)	(1,090,882.26)	(206,500.14)	(7,564,275.72)
Other Financing Sources (Uses):					
Transfers In	47,000.00			431,454.77	478,454.77
Transfers Out	(55,000.00)	(225,454.77)		(220,000.00)	(500,454.77)
Special Assessment Bonds Issued		6,580,790.31	1,112,209.69	609,000.00	8,302,000.00
Total Other Financing Sources (Uses)	(8,000.00)	6,355,335.54	1,112,209.69	820,454.77	8,280,000.00
Net Changes in Fund Balances	74,405.69	6,036.53	21,327.43	613,954.63	715,724.28
Fund Balance - January 1	87,367.75	487,973.23	293,202.37	1,096,467.98	1,965,011.33
Fund Balance - December 31	161,773.44	494,009.76	314,529.80	1,710,422.61	2,680,735.61

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

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, 2021

Net Change in Fund Balances - Total Governmental Funds	715,724.28
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay		
Current Year Depreciation Expense	<u>(693,882.00)</u>	(693,882.00)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds		
Repayment of Debt	<u>(8,302,000.00)</u>	(8,302,000.00)
	<u>8,797,433.38</u>	495,433.38

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease in Compensated Absences	<u>3,044.43</u>
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Change in Net Position of Governmental Activities	<u><u>520,320.09</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2021

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water	Garbage	Water Main Replacement		
ASSETS					
Current Assets:					
Cash and Cash Equivalents	937,860.93	131.43	266,048.27	151,943.09	1,355,983.72
Noncurrent Assets:					
Capital Assets (net of accumulated depreciation):					
Land	9,200.00				9,200.00
Buildings and Infrastructure	2,601,679.00	43,798.00	4,102,726.00	100,200.00	6,848,403.00
Vehicles and Machinery	3,911.00	106,591.00		32,595.00	143,097.00
Total Noncurrent Assets	2,614,790.00	150,389.00	4,102,726.00	132,795.00	7,000,700.00
Total Assets	3,552,650.93	150,520.43	4,368,774.27	284,738.09	8,356,683.72
LIABILITIES					
Current Liabilities:					
Revenue Bonds Payable	20,697.18		125,000.00	10,000.00	155,697.18
Noncurrent Liabilities:					
Revenue Bonds Payable	1,221,887.46		2,507,000.00	41,000.00	3,769,887.46
Total Liabilities	1,242,584.64	-	2,632,000.00	51,000.00	3,925,584.64
NET POSITION					
Net Investment in Capital Assets	1,372,205.36	150,389.00	1,470,726.00	81,795.00	3,075,115.36
Restricted for:					
Debt Service	797,535.64		266,048.27	63,050.28	1,126,634.19
Customer Insurance				8,094.91	8,094.91
Water Deposits	15,377.20				15,377.20
Mosquito Control				18,283.09	18,283.09
Unrestricted	124,948.09	131.43		62,514.81	187,594.33
Total Net Position	2,310,066.29	150,520.43	1,736,774.27	233,738.09	4,431,099.08

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2021

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water	Garbage	Water Main Replacement		
Operating Revenues:					
Charges for Sales and Services:					
Water Charges	383,866.55		181,784.86		565,651.41
Sewer Charges				109,774.68	109,774.68
Garbage Charges		269,233.77			269,233.77
Recycling		19,442.36			19,442.36
Dumpsters		48,496.26			48,496.26
Mosquito Control				10,336.00	10,336.00
Other Fees	13,897.40				13,897.40
Total Operating Revenues	397,763.95	337,172.39	181,784.86	120,110.68	1,036,831.88
Operating Expenses:					
Water	308,075.96				308,075.96
Sewer				106,742.64	106,742.64
Garbage		345,035.57			345,035.57
Mosquito Control				5,824.15	5,824.15
Repairs and Maintenance	15,561.69			1,397.50	16,959.19
Depreciation	83,829.00	11,572.00	142,728.00	14,868.00	252,997.00
Total Operating Expenses	407,466.65	356,607.57	142,728.00	128,832.29	1,035,634.51
Operating Income (Loss)	(9,702.70)	(19,435.18)	39,056.86	(8,721.61)	1,197.37
Non-Operating Revenues (Expenses):					
Miscellaneous Revenues	2,528.18		14,429.57		16,957.75
Interest Payments and Service Charges	(34,711.94)		(51,993.01)	(1,800.00)	(88,504.95)
Total Non-Operating Revenues (Expenses)	(32,183.76)	-	(37,563.44)	(1,800.00)	(71,547.20)
Income (Loss) Before Transfers	(41,886.46)	(19,435.18)	1,493.42	(10,521.61)	(70,349.83)
Transfers In	89,000.00	28,000.00		9,600.00	126,600.00
Transfers Out	(77,000.00)			(27,600.00)	(104,600.00)
Changes in Net Position	(29,886.46)	8,564.82	1,493.42	(28,521.61)	(48,349.83)
Net Position - January 1	2,339,952.75	141,955.61	1,735,280.85	262,259.70	4,479,448.91
Net Position - December 31	2,310,066.29	150,520.43	1,736,774.27	233,738.09	4,431,099.08

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year ended December 31, 2021

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water	Garbage	Water Main Replacement		
<u>Cash flows from operating activities:</u>					
Receipts from customers	397,763.95	337,172.39	181,784.86	120,110.68	1,036,831.88
Payments to suppliers and employees	(323,637.65)	(345,035.57)		(113,964.29)	(782,637.51)
Net cash provided (used) by operating activities	74,126.30	(7,863.18)	181,784.86	6,146.39	254,194.37
<u>Cash flows from noncapital financing activities:</u>					
Transfers in	89,000.00	28,000.00		9,600.00	126,600.00
Transfers out	(77,000.00)			(27,600.00)	(104,600.00)
Interfund loan transaction	20,005.39	(20,005.39)			-
Net cash provided (used) by noncapital financing activities	32,005.39	7,994.61	-	(18,000.00)	22,000.00
<u>Cash flows from capital and related financing activities:</u>					
Miscellaneous receipts	2,528.18		14,429.57		16,957.75
Principal payments	(24,445.31)		(135,000.00)	(9,000.00)	(168,445.31)
Interest and service charges	(34,711.94)		(51,993.01)	(1,800.00)	(88,504.95)
Net cash provided (used) by capital and related financing activities	(56,629.07)	-	(172,563.44)	(10,800.00)	(239,992.51)
Net increase in cash and cash equivalents	49,502.62	131.43	9,221.42	(22,653.61)	36,201.86
Cash and cash equivalents, January 1	888,358.31	-	256,826.85	174,596.70	1,319,781.86
Cash and cash equivalents, December 31	937,860.93	131.43	266,048.27	151,943.09	1,355,983.72
 <u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>					
Operating income (loss)	(9,702.70)	(19,435.18)	39,056.86	(8,721.61)	1,197.37
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	83,829.00	11,572.00	142,728.00	14,868.00	252,997.00
Net cash provided (used) by operating activities	74,126.30	(7,863.18)	181,784.86	6,146.39	254,194.37

The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Notes to the Financial Statements
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harvey operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government 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.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the 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 Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the city 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.

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

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of Harvey. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental and business-type* activities of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented 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 nonmajor funds.

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. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange 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.

Street Improvement 2016. This fund accounts for special assessments collected for the purpose of paying the principal and interest costs related to the Refunding Improvement Bonds, Series 2021.

Water Treatment Plant. This fund accounts for special assessments collected for the purpose of paying the principal and interest costs related to the Refunding Improvement Bonds, Series 2021.

The city reports the following major enterprise funds:

Water. This fund accounts for the activities of the city's water distribution system.

Garbage. This fund accounts for the activities of the city's garbage collection system.

Water Main Replacement. This fund accounts for utility charges used to pay the principal and interest of the Water Treatment and Water Main Replacement revenue bonds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like 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 fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (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.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like 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 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.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Infrastructure	15 to 75 years
Machinery and Vehicles	5 to 20 years

F. Compensated Absences

Vested or accumulated sick leave and vacation leave are reported in the government-wide statement of net position. Vacation leave is earned at the rate of 12 to 21 days per year, depending on years of service. Compensation for unused vacation leave will be granted to all full-time employees upon resignation, termination or retirement. City employees may carry forward unused leave not to exceed 40 hours. Sick leave is earned at 8 hours per month. City employees leaving employment after 10 years of continuous service are eligible to receive 10 percent of accumulated sick leave. Sick leave may be accumulated to 48 days. Upon termination of employment, these benefits are paid to city employees at their current pay rate.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Pension

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS); additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Fund Equity

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, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications 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 can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

Assigned – Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance 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 use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

J. Interfund Transactions

In the governmental and proprietary fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

K. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the city 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 institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 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, share of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any 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 another state of the United States or other securities approved by the banking board.

At December 31, 2021 the city's carrying amount of deposits was \$4,001,269 and the bank balance was \$4,016,313. Of the bank balance, \$750,000 was covered by Federal Depository Insurance. The remaining balance of \$3,266,313 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2021, the city held certificates of deposit in the amount of \$1,743,509, which are all considered deposits.

Concentration of Credit Risk

The city does not have a limit on the amount the city may invest in any one issuer.

Note 3 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.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on the 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 4 ADVANCES TO ECONOMIC DEVELOPMENT PROJECTS

Advances to economic development projects consist of loans to area businesses. The following amounts are outstanding at December 31, 2021:

<u>Borrower</u>	
Dakota Computer Pros	12,050.00
Lincoln & Nine Café & Coffee, LLC	2,400.00
Rads Tree Service	11,000.09
B&B Service and Repair	10,000.00
Total	<u>35,450.09</u>

Note 5 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in each fund. Interfund receivables/payables for the year ended December 31, 2021 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	141,533.29	
Babe Ruth		10,692.01
Centennial Park Project		18,183.27
Sidewalk Improvement		58,685.93
Land Development Reserve		53,972.08

Note 6 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2021:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	<u>108,853</u>			<u>108,853</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	19,995,312			19,995,312
Machinery and Vehicles	<u>1,554,676</u>			<u>1,554,676</u>
Total	<u>21,549,988</u>	-	-	<u>21,549,988</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	5,553,019	605,275		6,158,294
Machinery and Vehicles	<u>775,168</u>	<u>88,607</u>		<u>863,775</u>
Total	<u>6,328,187</u>	<u>693,882</u>	-	<u>7,022,069</u>
Total capital assets being depreciated, net	<u>15,221,801</u>	<u>(693,882)</u>	-	<u>14,527,919</u>
Governmental Activities Capital Assets, Net	<u>15,330,654</u>	<u>(693,882)</u>	-	<u>14,636,772</u>

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	9,200			9,200
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	12,012,363			12,012,363
Machinery and Vehicles	335,951			335,951
Total	12,348,314	-	-	12,348,314
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,928,531	235,429		5,163,960
Machinery and Vehicles	175,286	17,568		192,854
Total	5,103,817	252,997	-	5,356,814
Total capital assets being depreciated, net	7,244,497	(252,997)	-	6,991,500
Business-type Activities Capital Assets, Net	<u>7,253,697</u>	<u>(252,997)</u>	<u>-</u>	<u>7,000,700</u>

Depreciation expense was charged to functions/programs of the city as follows for the year ended December 31, 2021:

Governmental Activities:

General Government	23,396
Public Safety	24,149
Street and Public Works	526,162
Culture and Recreation	8,732
Other	<u>111,443</u>

Total Depreciation Expense 693,882

Business-type Activities:

Water	83,829
Sewer	14,868
Garbage	11,572
Water Main Replacement Project	<u>142,728</u>

Total Depreciation Expense 252,997

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2021, the following changes occurred in the liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Special Assessment Bonds	8,106,433	8,302,000	8,492,433	7,916,000	808,000
Revenue Bonds	957,000		305,000	652,000	56,000
Compensated Absences	39,888		3,044	36,844	
Total	9,103,322	8,302,000	8,800,478	8,604,844	864,000

Business-type Activities (Proprietary Funds):

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Revenue Bonds	4,094,030	-	168,445	3,925,585	155,697

Outstanding debt at December 31, 2021 consists of the following:

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the construction of streets and water treatment plant. Special assessment bonds outstanding at December 31, 2021 is as follows:

\$412,076 Water Treatment Assessment Bonds of 2002 due in a final payment of \$25,000 on September 1, 2022; interest is at 2.5%.	25,000.00
\$8,302,000 Refunding Improvement Bonds, Series 2021; due in semi-annual payments of \$293,000 to \$417,000 through November 1, 2032; interest is at .5% to 1.5%.	<u>7,891,000.00</u>
Total Special Assessment Bonds Payable	<u>7,916,000.00</u>

The annual requirements to amortize the outstanding special assessment bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	808,000.00	76,128.00
2023	782,000.00	71,390.00
2024	783,000.00	66,512.50
2025	783,000.00	60,846.00
2026	779,000.00	54,396.50
2027-2031	3,377,000.00	156,231.50
2032	604,000.00	6,802.50
Total	<u>7,916,000.00</u>	<u>492,307.00</u>

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2021 are as follows:

\$238,715 Water and Sewer Extension Bonds of 2004, due in annual payments of \$16,000 through September 1, 2023; interest is at 2.5%.	32,000.00
\$830,477 Waste Water Treatment Revenue Bonds, Series 2017, due in annual payments of \$40,000 to \$50,000 through September 1, 2035; interest is at 2%.	620,000.00
Total Revenue Bonds Payable	652,000.00

The annual requirements to amortize the outstanding revenue bonds payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	56,000.00	13,200.00
2023	56,000.00	12,000.00
2024	40,000.00	10,800.00
2025	40,000.00	10,000.00
2026	40,000.00	9,200.00
2027-2031	225,000.00	33,000.00
2032-2035	195,000.00	9,600.00
Total	652,000.00	97,800.00

Business-type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2021 are as follows:

\$676,556 Water Main Replacement Bonds 2004-1, due in annual payments of \$45,000 through September 1, 2023; interest is at 2.5%.	90,000.00
\$91,581 Water System Improvement Bonds of 2006, due in annual payments of \$5,000 to \$6,000 through September 1, 2026; interest is at 2.5%.	27,000.00
\$119,952 Water Treatment Revenue Bonds of 2007, due in annual payments of \$10,000 to \$11,000 through September 1, 2026; interest is at 2.5%.	51,000.00
\$1,210,000 Water System Improvement Revenue Bonds, Series A, due in annual payments of \$50,264 through March 21, 2056 and a final payment of \$48,164.93 on March 21, 2057; interest is at 2.75%.	1,139,189.07
\$110,000 Water System Improvement Revenue Bonds, Series B, due in annual payments of \$4,475 through July 18, 2056 and a final payment of \$4,456.32 on July 18, 2057; interest is at 2.625%.	103,395.57

\$2,600,000 Water Revenue Refunding Bonds, Series 2020,
 due in annual payments of \$75,000 to \$230,000 through
 September 1, 2046; interest is at .75% to 3%.

2,515,000.00

Total Revenue Bonds Payable

3,925,584.64

The annual requirements to amortize the outstanding revenue bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	155,697.18	94,373.08
2023	156,264.14	90,056.12
2024	111,846.65	87,411.11
2025	120,445.11	86,025.15
2026	113,059.97	84,122.79
2027-2031	545,128.82	373,934.98
2032-2036	618,233.30	306,580.50
2037-2041	693,957.72	235,281.06
2042-2046	897,681.28	145,138.72
2047-2051	214,838.11	58,856.89
2052-2056	245,925.10	27,769.90
2057	52,507.26	1,438.54
Total	<u>3,925,584.64</u>	<u>1,590,988.84</u>

Note 8 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2021:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Emergency	5,000.00	
Centennial Park Project	50,000.00	
General Fund		55,000.00
To subsidize expenditures		
USDA/BND Project Reserves	35,000.00	
Water Operating		35,000.00
To set-aside funds for project reserves.		
Ball Park Addition	45,000.00	
Infrastructure		45,000.00
Water & Sewer Extension/2004	6,000.00	
Waterworks Sinking	54,000.00	
Sewer Lift Station Replacement	9,600.00	
Water Operating		42,000.00
Sewer Utility Fund		27,600.00
To subsidize debt service payments.		

Police Department Equip. Reserve	23,000.00	
Fire Department Equipment Reserve	24,000.00	
Garbage Department Equip. Reserve	23,000.00	
Infrastructure		70,000.00
Tot set-aside funds for the purchase of capital assets.		
Infrastructure	225,454.77	
Street Improvement 2016		225,454.77
To set-aside funds for future infrastructure projects.		
Garbage	5,000.00	
Infrastructure		5,000.00
To eliminate deficit fund balance.		
Harvey Area Growth Fund	100,000.00	
Harvey Community Development		100,000.00
To transfer excess sales tax collections.		

Note 9 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2021:

<u>Special Revenue Funds</u>	
Babe Ruth	(10,692.01)
Centennial Park Project	(18,183.27)
Sidewalk Improvement	(58,685.93)
Land Development Reserve	(53,972.08)

The city plans to eliminate these deficits with future revenue collections and/or transfers from other funds.

Note 10 RISK MANAGEMENT

The City of Harvey is exposed to various risks of loss relating 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, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$2,109,943 for public assets.

The city 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

\$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$1,468,855 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 11 OTHER POSTEMPLOYMENT BENEFITS

The city is required to implement GASB Statement No. 75, Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions. The effect of this statement is not material to the city's financial statements.

Note 12 TAX ABATEMENTS

The city has not entered into any tax abatement agreements that would reduce the city's tax revenues for the year ended December 31, 2021.

Note 13 PRIOR PERIOD ADJUSTMENT

A prior adjustment was made to eliminate accruals for GASB No. 68 and restate the financial statements to the modified cash basis of accounting.

	<u>Governmental Activities</u>
Net Position as previously reported	7,527,990.73
Adjustments to restate the January 1, 2021 balance:	
Deferred Outflows of Resources - Related to Pensions	(320,679.00)
Net Pension Liability	644,698.00
Deferred Inflows of Resources - Related to Pensions	<u>340,334.00</u>
Net Position, January 1, 2021 as restated	<u><u>8,192,343.73</u></u>

CITY OF HARVEY
Harvey, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	350,000.00	344,735.92	344,735.92	-
Special Assessments		11,108.87	11,108.87	-
Licenses, Permits and Fees	14,750.00	35,633.96	35,633.96	-
Intergovernmental	172,550.00	259,597.92	259,597.92	-
Charges for Services	40,000.00	42,005.36	2,005.36	(40,000.00)
Fines and Forfeits	7,500.00	5,276.00	5,276.00	-
Miscellaneous	123,200.00	157,068.59	157,244.09	175.50
Total Revenues	708,000.00	855,426.62	815,602.12	(39,824.50)
Expenditures:				
Current:				
General Government	252,765.00	223,057.72	217,131.72	5,926.00
Public Safety	433,735.00	447,079.09	432,827.46	14,251.63
Culture and Recreation	21,500.00	83,237.25	83,237.25	-
Total Expenditures	708,000.00	753,374.06	733,196.43	20,177.63
Excess (Deficiency) of Revenue Over Expenditures	-	102,052.56	82,405.69	(19,646.87)
Other Financing Sources (Uses):				
Transfers In			47,000.00	47,000.00
Transfers Out			(55,000.00)	(55,000.00)
Total Other Financing Sources (Uses)	-	-	(8,000.00)	(8,000.00)
Net Change in Fund Balances	-	102,052.56	74,405.69	(27,646.87)
Fund Balance - January 1	87,367.75	87,367.75	87,367.75	
Fund Balance - December 31	87,367.75	189,420.31	161,773.44	(27,646.87)

CITY OF HARVEY
Harvey, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2021

Note 1. SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general, special revenue and debt service funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2. LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the city's budget during the year ended December 31, 2021:

	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	708,000	147,427	855,427
<u>Special Revenue Funds</u>			
Recreation	28,000	963	28,963
Library	82,500	42,669	125,169
Economic Development	10,000	2,430	12,430
Centennial Park Project	2,500	53,319	55,819
Special Assessment Interest		1,430	1,430
Sidewalk Improvement	4,000	11,350	15,350
Harvey Community Development Fund	233,000	10,567	243,567
Childcare	135,000	21,742	156,742
Land Development Reserve	4,000	36,745	40,745
Infrastructure	230,000	280,674	510,674
Prairie Dog/ARPA Fund		129,218	129,218
Airport	37,000	459,779	496,779
<u>Debt Service Funds</u>			
Street Improvement 2016	615,000	237,273	852,273
Water Tower Specials #35	27,000	1,240	28,240
Ball Park Addition	72,000	39,654	111,654

	Original Budget	<u>Appropriations</u> Amendment	Amended Budget
General Fund	708,000	45,374	753,374
<u>Special Revenue Funds</u>			
Emergency	2,000	10,780	12,780
Babe Ruth	4,500	6,395	10,895
Library	82,500	22,036	104,536
Economic Development	10,000	9,347	19,347
Centennial Park Project	2,500	131,512	134,012
Sidewalk Improvement	4,000	66,039	70,039
Childcare	135,000	18,835	153,835
Infrastructure	230,000	104,172	334,172
Airport	37,000	161,518	198,518
<u>Debt Service Funds</u>			
Street Improvement 2016	615,000	231,237	846,237
Ball Park Addition	72,000	441,586	513,586

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ended December 31, 2021:

Special Revenue Funds

Harvey Community Development	26,549.49
Infrastructure	5,417.64

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

CITY OF HARVEY
Harvey, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.055408%	0.055005%	0.056227%	0.052615%	0.050934%	0.052138%	0.054711%
City's proportionate share of the net pension liability	1,743,148	644,698	948,892	845,696	496,401	354,529	347,262
City's covered employee payroll	591,147	557,694	555,271	542,592	542,908	488,331	467,523
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	294.88%	115.60%	170.89%	155.86%	91.43%	72.60%	74.28%
Plan fiduciary net position as a percentage of the total pension liability	48.91%	71.66%	62.80%	61.98%	70.46%	77.15%	77.70%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	42,090	39,708	39,535	38,633	38,655	34,769	30,933
Contributions in relation to the statutorily required contributions	(42,090)	(39,708)	(39,535)	(38,633)	(38,655)	(34,769)	(30,933)
Contribution deficiency (excess)	0	0	0	0	0	0	0
City's covered-employee payroll	591,147	557,694	555,271	542,592	542,908	488,331	467,523
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.12%	7.12%	7.12%	6.62%

* Complete date for this schedule is not available prior to 2015.

CITY OF HARVEY
Harvey, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2021

	Balance 1-1-2021	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2021
Major Governmental Funds						
General Fund:						
General	15,008.84	813,596.76		55,000.00	698,374.06	75,231.54
Estate Taxes	38,505.15					38,505.15
Equipment Reserve	19,518.37	2,005.36			4,074.00	17,449.73
Fire Department Equipment Reserve	30,850.14		24,000.00		25,000.00	29,850.14
Police Department Equipment Reserve	(16,514.75)		23,000.00		5,748.37	736.88
Total General Fund	87,367.75	815,602.12	47,000.00	55,000.00	733,196.43	161,773.44
Street Improvement 2016	487,973.23	7,207,608.87		225,454.77	6,976,117.57	494,009.76
Water Treatment Plant	293,202.37	1,296,467.75			1,275,140.32	314,529.80
Total Major Governmental Funds	868,543.35	9,319,678.74	47,000.00	280,454.77	8,984,454.32	970,313.00
Non-major Governmental Funds						
Highway Distribution	35,634.42	184,412.93			171,450.37	48,596.98
Social Security	5,421.30					5,421.30
City Share of Special Assessments	41,842.37	16,650.34			11,896.12	46,596.59
Special Assessment Deficiency	45.40					45.40
Emergency	7,220.36	1,958.44	5,000.00		12,779.52	1,399.28
Recreation	20,873.37	28,962.72			22,139.83	27,696.26
Recreation Equipment Reserve	8,113.58					8,113.58
Skateboard/Archery	1,384.00	3,238.00			1,646.09	2,975.91
Babe Ruth	203.31				10,895.32	(10,692.01)
Library:						
Operating	4,224.43	125,168.83			104,536.20	24,857.06
Endowment	281,626.92					281,626.92
Band	550.00					550.00
Economic Development	136,833.03	12,429.58			19,347.00	129,915.61
Centennial Park Project	18,399.11	47,430.03	50,000.00		134,012.41	(18,183.27)
Special Assessment Interest	26,985.74	1,430.33				28,416.07
Sidewalk Improvement	(7,997.65)	19,350.45			70,038.73	(58,685.93)
Street Repair Reserve	23,030.06					23,030.06
Economic Development Reserve	34,856.78					34,856.78
Harvey Community Development Fund	100,111.28	243,566.67		100,000.00	159,549.49	84,128.46
Convention and Visitor's Bureau	11,405.04	12,917.92			8,981.14	15,341.82
Childcare	13,927.11	152,991.91			153,835.17	13,083.85
Harvey Area Growth Fund	187,843.26	10,499.96	100,000.00		139,898.26	158,444.96
JDA Guarantee Set-aside Fund	30,084.45					30,084.45
Land Development Reserve	(94,716.83)	40,744.75				(53,972.08)
Street Department Equipment Reserve	22,647.07					22,647.07
Infrastructure	196,075.60	488,313.72	225,454.77	120,000.00	339,589.89	450,254.20
Prairie Dog/ARPA Fund	125,000.00	129,217.91				254,217.91

(continued)

CITY OF HARVEY
Harvey, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2021
(continued)

	Balance 1-1-2021	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2021
<u>Nonmajor Governmental Funds (continued)</u>						
Airport	(291,377.45)	496,779.21			198,518.32	6,883.44
Water & Sewer Extension/2004	15,504.19		6,000.00		16,372.50	5,131.69
Water Tower Specials #35	49,581.57	28,239.91			26,830.11	50,991.37
Ball Park Addition	366.52	399,656.31	45,000.00		444,705.00	317.83
Ball Park Water/Sewer and Street Project	60,819.59	61.37				60,880.96
Total Nonmajor Governmental Funds	1,066,517.93	2,444,021.29	431,454.77	220,000.00	2,047,021.47	1,674,972.52
Total Governmental Funds	1,935,061.28	11,763,700.03	478,454.77	500,454.77	11,031,475.79	2,645,285.52
<u>Major Enterprise Funds</u>						
Water:						
Operating	45,357.21	400,292.13		77,000.00	290,610.58	78,038.76
Water Department Equipment Reserve	38,539.53					38,539.53
Reserve for Water Improvements	55,977.07				32,230.07	23,747.00
Waterworks Sinking	117,085.89		54,000.00		59,954.25	111,131.64
USDA/BND Project Reserves	651,404.00		35,000.00			686,404.00
Garbage:						
Operating	2,929.38	337,172.39	5,000.00		345,035.57	66.20
Garbage Dept. Equipment Reserve	(22,934.77)		23,000.00			65.23
Water Main Replacement:						
Phase I	70,849.52	103,232.30			54,885.00	119,196.82
Phase II	185,977.33	92,982.13			132,108.01	146,851.45
Total Major Enterprise Funds	1,145,185.16	933,678.95	117,000.00	77,000.00	914,823.48	1,204,040.63
<u>Non-Major Enterprise Funds</u>						
Mosquito Control	13,771.24	10,336.00			5,824.15	18,283.09
Customer Insurance Reserve	8,094.91					8,094.91
Sewer Lift Station Replacement	66,353.11		9,600.00		12,902.83	63,050.28
Sewer Utility	25,274.87	109,774.68		27,600.00	106,037.31	1,412.24
Sewer Lagoon #25	61,102.57					61,102.57
Total Non-Major Enterprise Funds	174,596.70	120,110.68	9,600.00	27,600.00	124,764.29	151,943.09
Total Enterprise Funds	1,319,781.86	1,053,789.63	126,600.00	104,600.00	1,039,587.77	1,355,983.72
Total Funds	3,254,843.14	12,817,489.66	605,054.77	605,054.77	12,071,063.56	4,001,269.24

Rath & Mehrer, P.C.

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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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Harvey
Harvey, North Dakota

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harvey, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated March 25, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the city's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control. Accordingly, we do not express an opinion on the effectiveness of the city's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the city's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

March 25, 2022

CITY OF HARVEY
Harvey, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2021

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2021-001 – Segregation of Duties

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.

Condition: The city has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

Cause: The city does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The city is aware of the condition and segregates duties whenever possible.

2. 2021-002- Financial Statement Preparation

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The city's financial statements, including the accompanying note disclosures, are prepared by the city's external auditors.

Cause: The city feels that it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be 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; and review and approve them prior to external distribution.

Views of Responsible officials: The city will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.