

AUDIT REPORT

CITY OF HARVEY
Harvey, North Dakota

For the Year Ended December 31, 2018

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HARVEY
Harvey, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2018

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-11
 BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	12
Statement of Activities - Modified Cash Basis	13
Balance Sheet - Modified Cash Basis - Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	17
Statement of Net Position - Modified Cash Basis - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	19
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	20
Notes to the Financial Statements	21-39
 SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Modified Cash Basis General Fund	40
Notes to the Budgetary Comparison Schedules	41-42
Schedule of Employer's Share of Net Pension Liability ND Public Employees Retirement System	43
Schedule of Fund Activity Arising from Cash Transactions	44-45
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	46-47
Schedule of Findings and Responses	48-49

CITY OF HARVEY
Harvey, North Dakota

CITY OFFICIALS

Ann Adams	Mayor
Rick Eckart	Council President
Milo Baltrusch	Council Vice President
Melissa Anderson	Council Member
Donnie Hoepfer	Council Member
Shelley Svoboda	Council Member
Bob Weninger	Council Member
Karen Nordby	Auditor

Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

Phone: (701) 258-4560

Jayson Rath, CPA
Ken Mehrer, CPA

425 North Fifth Street
Bismarck, ND 58501

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Harvey
Harvey, North Dakota

Report on the Financial Statements

We have audited the accompanying 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, Harvey, North Dakota, as of and for the year ended December 31, 2018, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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. Those standards require that we plan and perform the audit 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 judgement, 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 city'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 city'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.

Opinions

In our opinion, the 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, 2018, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year 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 opinions are not modified with respect to this matter.

Other Matters

Other 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 management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedule 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 basic 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 management's discussion and analysis, budgeting comparison information, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019 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 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 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

Rath and Mehrer, P.C.

Bismarck, North Dakota

February 15, 2019

CITY OF HARVEY

Management's Discussion and Analysis

December 31, 2018

The Management's Discussion and Analysis (MD&A) of the City of Harvey's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2018. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2018 are as follows:

- * Total net position of the city decreased \$10,760 as a result of the current year's operations. Net position of the governmental activities increased \$108,532 and net position of the business-type activities decreased \$119,292.
- * Governmental net position totaled \$6,783,789 and business-type net position totaled \$4,789,408.
- * Total revenues from all sources were \$1,911,633 for governmental activities and \$1,161,377 for business-type activities.
- * Total expenses were \$1,789,101 for governmental activities and \$1,294,669 for business-type activities.
- * The city's general fund had \$551,651 in total revenues and \$559,126 in total expenditures. Overall, the general fund balance decreased by \$7,475 for the year ended December 31, 2018.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- * Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- * Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. 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.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2018?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, culture and recreation, and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer, garbage, water main replacement and mosquito control.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund and street improvement 2016 fund are considered "major governmental funds". The city's water fund, garbage fund and water main replacement fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds" or "Other Enterprise Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2018. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position decreased by \$10,760 for the year ended December 31, 2018. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2018, the city's net position of \$11,573,197 is segregated into three separate categories. Net investment in capital assets totals \$9,041,612. It should be noted that these assets are not available for future spending. The restricted component of net position is \$2,747,981 of the city's total net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$216,396), which includes (\$469,204) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$252,808 is available to meet the city's ongoing obligations.

Table I

Net Position
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,798,580	1,237,555
Capital Assets (net of accumulated depreciation)	14,991,505	7,778,835
Total Assets	<u>16,790,085</u>	<u>9,016,390</u>
Deferred Outflows of Resources	<u>415,235</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	340,125	120,182
Long-Term Liabilities	9,196,967	4,106,800
Net Pension Liability	845,696	
Total Liabilities	<u>10,382,788</u>	<u>4,226,982</u>
Deferred Inflows of Resources	<u>38,743</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	5,489,759	3,551,853
Restricted	1,703,882	1,044,098
Unrestricted	(409,852)	193,456
Total Net Position	<u>6,783,789</u> =====	<u>4,789,408</u> =====

Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,746,202	1,214,848
Capital Assets (net of accumulated depreciation)	10,871,230	8,052,174
Total Assets	<u>12,617,432</u>	<u>9,267,022</u>
Deferred Outflows of Resources	<u>161,366</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	253,000	124,620
Long-Term Liabilities	5,304,561	4,233,702
Net Pension Liability	496,401	
Total Liabilities	<u>6,053,962</u>	<u>4,358,322</u>
Deferred Inflows of Resources	<u>49,579</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	5,349,695	3,693,852
Restricted	1,730,212	986,562
Unrestricted	(404,649)	228,286
Total Net Position	<u>6,675,258</u> =====	<u>4,908,700</u> =====

Table II shows the changes in net position for the fiscal year ended December 31, 2018. A comparative analysis of city-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	145,055	1,020,778
Operating Grants and Contributions	644,449	122,946
<u>General Revenues:</u>		
Property Taxes	402,994	
Other Taxes	460,324	
Intergovernmental - Unrestricted	129,749	
Interest Earnings and Other Revenue	129,062	17,653
Total Revenues	<u>1,911,633</u>	<u>1,161,377</u>
<u>Expenses</u>		
General Government	339,243	
Public Safety	316,440	
Streets and Public Works	522,775	
Culture and Recreation	190,043	
Urban and Economic Development	203,571	
Other	133,913	
Interest on Long-Term Debt	83,115	
Water		600,389
Sewer		110,688
Garbage		320,534
Water Main Replacement		254,688
Mosquito Control		8,370
Total Expenses	<u>1,789,101</u>	<u>1,294,669</u>
Net Change in Position Before Transfers	<u>122,532</u>	<u>(133,292)</u>
Transfers	<u>(14,000)</u>	<u>14,000</u>
Net Change in Position	<u>108,532</u> =====	<u>(119,292)</u> =====

Property taxes constituted 13%, other taxes 15%, unrestricted intergovernmental 4%, operating grants and contributions 25%, and charges for services made up 38% of the total revenues of all activities of the city for the fiscal year ended December 31, 2018.

General government constituted 11%, public safety 10%, streets and public works 17%, and enterprise 42% of total expenses for all activities during the fiscal year ended December 31, 2018.

Changes in Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	97,393	929,339
Operating Grants and Contributions	662,783	465,441
<u>General Revenues:</u>		
Property Taxes	377,562	
Other Taxes	444,940	
Intergovernmental - Unrestricted	119,974	
Interest Earnings and Other Revenue	166,056	43,808
Total Revenues	<u>1,868,708</u>	<u>1,438,588</u>
Expenses		
General Government	309,159	
Public Safety	296,635	
Streets and Public Works	628,862	
Culture and Recreation	153,262	
Urban and Economic Development	170,131	
Other	166,949	
Interest on Long-Term Debt	86,135	
Water		453,377
Sewer		90,264
Garbage		336,718
Water Main Replacement		247,062
Mosquito Control		7,890
Total Expenses	<u>1,811,134</u>	<u>1,135,311</u>
Net Change in Position Before Transfers	<u>57,574</u>	<u>303,277</u>
Transfers	<u>(14,500)</u>	<u>14,500</u>
Net Change in Position	<u>43,074</u> =====	<u>317,777</u> =====

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III
Total and Net Cost of Services
As of December 31, 2018

	Total Cost Year Ended <u>Dec. 31, 2018</u>	Net Cost Year Ended <u>Dec. 31, 2018</u>
General Government	339,243	303,328
Public Safety	316,440	295,591
Streets and Public Works	522,775	291,222
Culture and Recreation	190,043	161,093
Urban and Economic Development	203,571	199,992
Other	133,913	102,832
Interest on Long-Term Debt	83,115	(354,461)
 Total Expenses	 1,789,101 =====	 999,597 =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$1,911,633 and expenditures of \$6,113,466 for the year ended December 31, 2018. As of December 31, 2018, the unassigned fund balance of the city's general fund was \$19,093 and total unassigned fund balances for all the city's governmental funds was (\$106,564).

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2018, the city did not amend the general fund budget.

Actual revenue for the year ended December 31, 2018 was \$131,349 less than budgeted. This variance was due to the city overestimating collections for various charges for services and state aid distribution. Actual expenditures for the year ended December 31, 2018 were under budget by \$123,874. This budget variance was due to the city overestimating appropriations for salaries and benefits for the police department included in public safety expenditures.

CAPITAL ASSETS

As of December 31, 2018, the city had \$22,770,340 invested in capital assets. The following table shows the balances, for governmental and business-type activities, as of December 31, 2018.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
Land	108,853	9,200
Construction in Progress	6,360,656	
Buildings and Infrastructure	7,934,611	7,573,834
Machinery and Vehicles	587,385	195,801
Total (net of depreciation)	<u>14,991,505</u> =====	<u>7,778,835</u> =====

This total represents an increase of \$3,846,936 in capital assets from January 1, 2018. The change in construction in progress was due to an ongoing street/water project and the completion of a daycare building. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 to the audited financial statements which follow this analysis.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Land	108,853	9,200
Construction in Progress	2,150,143	
Buildings and Infrastructure	7,961,534	7,828,405
Machinery and Vehicles	650,700	214,569
Total (net of depreciation)	<u>10,871,230</u> =====	<u>8,052,174</u> =====

DEBT ADMINISTRATION

As of December 31, 2018, the city had \$13,764,074 in outstanding debt of which \$460,308 was due within one year. During fiscal year 2018, the city issued one new long-term debt obligations:

Special Assessment Bonds Payable, in the amount of \$4,268,211. The city issued the Definitive Improvement Warrant, Series 2017, available funding of \$7,500,000 to finance a street/water rehabilitation project. These bonds will have a final payment on May 1, 2033.

For a detailed breakdown of the long-term debt, readers are referred to Note 7 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Karen Nordby, City Auditor, Harvey, ND.

CITY OF HARVEY
Harvey, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	1,755,663.52	1,237,554.55	2,993,218.07
Advances to Economic Development Projects	42,916.68		42,916.68
Capital Assets (net of accumulated depreciation):			
Land	108,853.00	9,200.00	118,053.00
Construction in Progress	6,360,656.00		6,360,656.00
Buildings and Infrastructure	7,934,611.00	7,573,834.00	15,508,445.00
Vehicles and Machinery	587,385.00	195,801.00	783,186.00
Total Capital Assets	14,991,505.00	7,778,835.00	22,770,340.00
Total Assets	16,790,085.20	9,016,389.55	25,806,474.75
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	415,235.00		415,235.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	271,125.15		271,125.15
Revenue Bonds Payable	69,000.00	120,182.37	189,182.37
Due After One Year:			
Special Assessment Bonds Payable	8,135,620.58		8,135,620.58
Revenue Bonds Payable	1,026,000.00	4,106,799.58	5,132,799.58
Compensated Absences Payable	35,346.26		35,346.26
Net Pension Liability	845,696.00		845,696.00
Total Liabilities	10,382,787.99	4,226,981.95	14,609,769.94
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	38,743.00		38,743.00
NET POSITION:			
Net Investment in Capital Assets	5,489,759.27	3,551,853.05	9,041,612.32
Restricted for:			
Debt Service	462,853.12	1,012,455.30	1,475,308.42
Customer Insurance		15,829.14	15,829.14
Water Deposits		13,846.36	13,846.36
Special Purposes	1,206,797.30		1,206,797.30
Ground Water Storage Project		1,967.61	1,967.61
CWSRF Sanitary Sewer	34,231.83		34,231.83
Unrestricted	(409,852.31)	193,456.14	(216,396.17)
Total Net Position	6,783,789.21	4,789,407.60	11,573,196.81

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

CITY OF HARVEY
Harvey, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2018

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Functions/Programs					
Primary Government:					
Governmental Activities:					
General Government	339,243.39	35,915.20		(303,328.19)	(303,328.19)
Public Safety	316,440.26	7,257.00	13,592.29	(295,590.97)	(295,590.97)
Streets and Public Works	522,775.21	80,004.84	151,548.64	(291,221.73)	(291,221.73)
Culture and Recreation	190,043.25	13,733.23	15,216.73	(161,093.29)	(161,093.29)
Urban and Economic Development	203,571.18		3,579.49	(199,991.69)	(199,991.69)
Other	133,913.05	8,144.92	22,936.50	(102,831.63)	(102,831.63)
Interest on Long-term Debt	83,114.94		437,575.52	354,460.58	354,460.58
Total Governmental Activities	1,789,101.28	145,055.19	644,449.17	(999,596.92)	(999,596.92)
Business-Type Activities:					
Water	600,389.33	414,061.60	122,945.94	(63,381.79)	(63,381.79)
Sewer	110,688.14	114,410.19		3,722.05	3,722.05
Garbage	320,534.40	303,390.48		(17,143.92)	(17,143.92)
Water Main Replacement	254,688.00	178,489.80		(76,198.20)	(76,198.20)
Mosquito Control	8,369.62	10,426.03		2,056.41	2,056.41
Total Business-Type Activities	1,294,669.49	1,020,778.10	122,945.94	(150,945.45)	(150,945.45)
Total Primary Government	3,083,770.77	1,165,833.29	767,395.11	(999,596.92)	(150,945.45)

General Revenues:					
Taxes:					
Property taxes; levied for general purposes				335,135.47	335,135.47
Property taxes; levied for special purposes				67,858.34	67,858.34
City sales taxes				438,515.59	438,515.59
Lodging taxes				15,292.84	15,292.84
Cigarette taxes				4,957.23	4,957.23
Gaming taxes				1,558.00	1,558.00
Intergovernmental revenue not restricted to specific programs				129,749.49	129,749.49
Earnings on investments and other revenue				129,061.61	146,715.06
Transfers				(14,000.00)	14,000.00
Total General Revenues and Transfers				1,108,128.57	31,653.45
Change in Net Position				108,531.65	(119,292.00)
Net Position - January 1				6,675,257.56	4,908,699.60
Net Position - December 31				6,783,789.21	4,789,407.60
=====					

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, 2018

	Major Funds			Total Governmental Funds
	General	Street Improvement 2016	Other Governmental Funds	
ASSETS:				
Cash, Cash Equivalents and Investments	107,233.93		1,648,429.59	1,755,663.52
Advances to Econ. Develop. Projects			42,916.68	42,916.68
Interfund Receivables			125,657.67	125,657.67
Total Assets	107,233.93	-0-	1,817,003.94	1,924,237.87
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Interfund Payables			125,657.67	125,657.67
Fund Balances:				
Nonspendable:				
Economic Development Loans			42,916.68	42,916.68
Restricted for:				
General Government			5,421.30	5,421.30
Streets and Public Works			86,475.62	86,475.62
Economic Development			462,102.39	462,102.39
Culture and Recreation			367,691.07	367,691.07
Emergency			3,139.14	3,139.14
City Share of Specials			74,614.55	74,614.55
General Infrastructure Development			139,285.25	139,285.25
CWSRF Sanitary Sewer Project			34,231.83	34,231.83
Airport			25,151.30	25,151.30
Debt Service			462,853.12	462,853.12
Assigned to:				
Streets and Public Works			23,030.06	23,030.06
Economic Development			34,856.78	34,856.78
Equipment Purchases	88,140.45		8,147.65	96,288.10
Other Purposes			47,087.20	47,087.20
Unassigned	19,093.48		(125,657.67)	(106,564.19)
Total Fund Balances	107,233.93		1,691,346.27	1,798,580.20
Total Liabilities and Fund Balances	107,233.93	-0-	1,817,003.94	1,924,237.87

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, 2018

Total Fund Balances for Governmental Funds	1,798,580.20
--	--------------

Total net position reported for government 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	20,317,863.00	
Less Accumulated Depreciation	(5,326,358.00)	
Net Capital Assets		14,991,505.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	415,235.00	
Total Deferred Inflows of Resources	(38,743.00)	
Net Deferred Outflows/Inflows of Resources		376,492.00

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, 2018 are:

Special Assessments Bonds Payable	(8,406,745.73)	
Revenue Bonds Payable	(1,095,000.00)	
Compensated Absences Payable	(35,346.26)	
Net Pension Liability	(845,696.00)	
Total Long-term Liabilities		(10,382,787.99)

Total Net Position of Governmental Activities	6,783,789.21
	=====

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, 2018

	Major Funds			
	General	Street Improvement 2016	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Taxes	335,135.47		521,666.77	856,802.24
Special Assessments			437,575.52	437,575.52
Licenses, Permits and Fees	35,915.20		13,733.23	49,648.43
Intergovernmental	138,195.01		179,682.36	317,877.37
Charges for Services	1.00		80,003.84	80,004.84
Fines and Forfeits	7,257.00			7,257.00
Miscellaneous	35,147.29		127,320.24	162,467.53
Total Revenues	551,650.97		1,359,981.96	1,911,632.93
<u>Expenditures:</u>				
Current:				
General Government	231,745.37		191.69	231,937.06
Public Safety	291,537.26			291,537.26
Streets and Public Works	12,433.71		290,066.50	302,500.21
Culture and Recreation	23,410.00		157,901.25	181,311.25
Urban and Economic Development			203,571.18	203,571.18
Other		9,510.77	26,592.28	36,103.05
Capital Outlay		4,258,700.00	236,691.00	4,495,391.00
Debt Service:				
Principal			288,000.00	288,000.00
Interest and Service Charges			83,114.94	83,114.94
Total Expenditures	559,126.34	4,268,210.77	1,286,128.84	6,113,465.95
Excess (Deficiency) of Revenues Over Expenditures	(7,475.37)	(4,268,210.77)	73,853.12	(4,201,833.02)
<u>Other Financing Sources (Uses):</u>				
Transfers In			459,727.53	459,727.53
Transfers Out			(473,727.53)	(473,727.53)
Special Assessment Bonds Issued		4,268,210.77		4,268,210.77
Total Other Financing Sources (Uses)		4,268,210.77	(14,000.00)	4,254,210.77
Net Change in Fund Balances	(7,475.37)		59,853.12	52,377.75
Fund Balance - January 1	114,709.30	-0-	1,631,493.15	1,746,202.45
Fund Balance - December 31	107,233.93	-0-	1,691,346.27	1,798,580.20
	=====			

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, 2018

Net Change in Fund Balances - Total Governmental Funds 52,377.75

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 capital outlay exceeded depreciation in the current year.

Current Year Capital Outlay	4,495,391.00	
Current Year Depreciation Expense	(375,116.00)	4,120,275.00

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 debt proceeds exceeded repayment of debt.

Debt Proceeds	(4,268,210.77)	
Repayment of Debt	288,000.00	(3,980,210.77)

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	679.67	
Net Increase to Pension Expense	(84,590.00)	(83,910.33)

Change in Net Position of Governmental Activities		108,531.65
		=====

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, 2018

	Major Enterprise Funds				
	Water	Garbage	Water Main Replacement	Other Enterprise Funds	Total Enterprise Funds
ASSETS					
<u>Current Assets:</u>					
Cash and Cash Equivalents	776,406.81		246,352.75	214,794.99	1,237,554.55
Interfund Receivable	80,999.31				80,999.31
Total Current Assets	857,406.12		246,352.75	214,794.99	1,318,553.86
<u>Noncurrent Assets:</u>					
Capital Assets (net of accumulated depr):					
Land	9,200.00				9,200.00
Buildings and Infrastructure	2,871,137.00	46,537.00	4,530,910.00	125,250.00	7,573,834.00
Machinery and Equipment	5,084.00	138,568.00		52,149.00	195,801.00
Total Noncurrent Assets	2,885,421.00	185,105.00	4,530,910.00	177,399.00	7,778,835.00
Total Assets	3,742,827.12	185,105.00	4,777,262.75	392,193.99	9,097,388.86
LIABILITIES					
<u>Current Liabilities:</u>					
Interfund Payable		80,999.31			80,999.31
Revenue Bonds Payable	23,285.37		87,897.00	9,000.00	120,182.37
Total Current Liabilities	23,285.37	80,999.31	87,897.00	9,000.00	201,181.68
<u>Noncurrent Liabilities:</u>					
Revenue Bonds Payable	1,290,938.13		2,746,861.45	69,000.00	4,106,799.58
Total Liabilities	1,314,223.50	80,999.31	2,834,758.45	78,000.00	4,307,981.26
NET POSITION					
Net Investment in Capital					
Assets	1,571,197.50	185,105.00	1,696,151.55	99,399.00	3,551,853.05
Restricted for:					
Debt Service	694,939.44		246,352.75	71,163.11	1,012,455.30
Customer Insurance				15,829.14	15,829.14
Water Deposits	13,846.36				13,846.36
Ground Water Storage Project	1,967.61				1,967.61
Unrestricted	146,652.71	(80,999.31)		127,802.74	193,456.14
Total Net Position	2,428,603.62	104,105.69	1,942,504.30	314,193.99	4,789,407.60

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, 2018

	Major Enterprise Funds				Total Enterprise Funds
	Water	Garbage	Water Main Replacement	Other Enterprise Funds	
<u>Operating Revenues:</u>					
Charges for Sales and Services:					
Water Charges	374,827.90		178,489.80		553,317.70
Sewer Charges				114,410.19	114,410.19
Garbage Charges		240,586.94			240,586.94
Recycling		12,724.55			12,724.55
Other Fees	39,233.70	50,078.99		10,426.03	99,738.72
Total Operating Revenues	414,061.60	303,390.48	178,489.80	124,836.22	1,020,778.10
<u>Operating Expenses:</u>					
Water	455,315.92			2,043.16	457,359.08
Garbage		308,962.40			308,962.40
Sewer				93,210.14	93,210.14
Mosquito Control				8,369.62	8,369.62
Depreciation	104,171.00	11,572.00	142,728.00	14,868.00	273,339.00
Total Operating Expenses	559,486.92	320,534.40	142,728.00	118,490.92	1,141,240.24
Operating Income (Loss)	(145,425.32)	(17,143.92)	35,761.80	6,345.30	(120,462.14)
<u>Non-Operating Revenues (Expenses):</u>					
USDA-RD Grant	122,945.94				122,945.94
Miscellaneous Revenues	3,012.58		14,640.87		17,653.45
Miscellaneous Expenses	(2,200.00)				(2,200.00)
Interest Payments and Service Charges	(36,659.25)		(111,960.00)	(2,610.00)	(151,229.25)
Total Non-Operating Revenues (Expenses)	87,099.27		(97,319.13)	(2,610.00)	(12,829.86)
Income (Loss) Before Transfers	(58,326.05)	(17,143.92)	(61,557.33)	3,735.30	(133,292.00)
Transfers In	110,700.00		20,000.00	12,400.00	143,100.00
Transfers Out	(99,200.00)			(29,900.00)	(129,100.00)
Change in Net Position	(46,826.05)	(17,143.92)	(41,557.33)	(13,764.70)	(119,292.00)
Net Position - January 1	2,475,429.67	121,249.61	1,984,061.63	327,958.69	4,908,699.60
Net Position - December 31	2,428,603.62	104,105.69	1,942,504.30	314,193.99	4,789,407.60

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, 2018

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water	Garbage	Water Main Replacement		
<u>Cash flows from operating activities:</u>					
Receipts from customers	414,061.60	303,390.48	178,489.80	124,836.22	1,020,778.10
Payments to employees and suppliers	(455,315.92)	(308,962.40)		(103,622.92)	(867,901.24)
Net cash provided (used) by operating activities	(41,254.32)	(5,571.92)	178,489.80	21,213.30	152,876.86
<u>Cash flows from noncapital financing activities:</u>					
Miscellaneous receipts	3,012.58		14,640.87		17,653.45
Miscellaneous disbursements	(2,200.00)				(2,200.00)
Interfund transaction	(5,571.92)	5,571.92			
Transfers in	110,700.00		20,000.00	12,400.00	143,100.00
Transfers out	(99,200.00)			(29,900.00)	(129,100.00)
Net cash provided (used) by noncapital financing activities	6,740.66	5,571.92	34,640.87	(17,500.00)	29,453.45
<u>Cash flows from capital and related financing activities:</u>					
USDA-RD grant	122,945.94				122,945.94
Principal payments	(22,676.50)		(99,663.57)	(9,000.00)	(131,340.07)
Interest payments and service charges	(36,659.25)		(111,960.00)	(2,610.00)	(151,229.25)
Net cash provided (used) by capital and related financing activities	63,610.19		(211,623.57)	(11,610.00)	(159,623.38)
Net increase in cash and cash equivalents	29,096.53		1,507.10	(7,896.70)	22,706.93
Cash and cash equivalents, January 1	747,310.28	-0-	244,845.65	222,691.69	1,214,847.62
Cash and cash equivalents, December 31	776,406.81	-0-	246,352.75	214,794.99	1,237,554.55
=====					
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>					
Operating income (loss)	(145,425.32)	(17,143.92)	35,761.80	6,345.30	(120,462.14)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	104,171.00	11,572.00	142,728.00	14,868.00	273,339.00
Net cash provided (used) by operating activities	(41,254.32)	(5,571.92)	178,489.80	21,213.30	152,876.86
=====					

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

CITY OF HARVEY
Harvey, North Dakota

Notes to the Financial Statements
December 31, 2018

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. This criteria includes 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, except for fiduciary activities. 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 the proceeds of the Definitive Improvement Warrant, Series 2017 used for a street improvement project.

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, shares of investments 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, 2018 the city's carrying amount of deposits was \$2,993,218 and the bank balance was \$3,005,608. Of the bank balance, \$750,000 was covered by Federal Depository Insurance. The remaining balance of \$2,255,608 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, 2018 the city held certificates of deposit in the amount of \$1,736,340, 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 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, 2018:

<u>Borrower</u>	
Dakota Computer Pros	13,800.00
Perfection Auto	6,666.68
Lincoln & Nine Cafe & Coffee, LLC	2,450.00
Rads Tree Service	20,000.00
Total	<u>42,916.68</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 the funds. Interfund receivables/payables for the year ended December 31, 2018 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
Harvey Area Growth Fund	125,657.67	
Sidewalk Improvement		4,193.55
Land Development Reserve		121,464.12
Water	88,999.31	
Garbage		88,999.31

Note 6 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	108,853			108,853
Construction in Progress	2,150,143	4,486,971	276,458	6,360,656
Total	<u>2,258,996</u>	<u>4,486,971</u>	<u>276,458</u>	<u>6,469,509</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	12,297,266	276,458		12,573,724
Machinery and Vehicles	1,266,210	8,420		1,274,630
Total	<u>13,563,476</u>	<u>284,878</u>		<u>13,848,354</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,335,732	303,381		4,639,113
Machinery and Vehicles	615,510	71,735		687,245
Total	<u>4,951,242</u>	<u>375,116</u>		<u>5,326,358</u>
Total capital assets being depreciated, net	8,612,234	(90,238)		8,521,996
Governmental Activities Capital Assets, Net	<u>10,871,230</u>	<u>4,396,733</u>	<u>276,458</u>	<u>14,991,505</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	<u>12,348,314</u>			<u>12,348,314</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,183,958	254,571		4,438,529
Machinery and Vehicles	121,382	18,768		140,150
Total	<u>4,305,340</u>	<u>273,339</u>		<u>4,578,679</u>
Total capital assets being depreciated, net	8,042,974	(273,339)		7,769,635
Business-type Activities Capital Assets, Net	<u>8,052,174</u>	<u>(273,339)</u>	<u>-0-</u>	<u>7,778,835</u>

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

<u>Governmental Activities:</u>	
General Government	23,396
Public Safety	24,903
Streets and Public Works	220,275
Culture and Recreation	8,732
Other	97,810
Total	<u>375,116</u> =====
<u>Business-type Activities:</u>	
Water	104,171
Sewer	14,868
Garbage	11,572
Water Main Replacement	142,728
Total	<u>273,339</u> =====

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2018, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Special Assmt. Bonds	4,358,535	4,268,211	220,000	8,406,746	271,125
Revenue Bonds	1,163,000		68,000	1,095,000	69,000
Comp. Absences *	36,026		680	35,346	
Total	<u>5,557,561</u>	<u>4,268,211</u>	<u>288,680</u>	<u>9,537,092</u>	<u>340,125</u>
	=====	=====	=====	=====	=====

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

Business-type Activities (Proprietary Funds):

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Revenue Bonds	4,358,322	-0-	131,340	4,226,982	120,182
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2018 consists of the following:

Governmental Activities:

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, 2018 are as follows:

\$412,076 Water Treatment Assessment Bonds of 2002 due in annual installments of \$25,000 through September 1, 2022; interest is at 2.5%.	100,000.00
\$2,260,000 Refunding Improvement Bonds, Series 2012; due in annual installments of \$120,000 to \$135,000 through November 1, 2029; interest is at 1.2% to 2.4%.	1,385,000.00
\$800,000 Refunding Improvement Bonds, Series 2013; due in annual installments of \$50,000 to \$55,000 through May 1, 2028; interest is at 2.75% to 3.75%.	545,000.00
Total Special Assessments Bond Debt	<u>2,030,000.00</u> =====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	215,000	46,364
2020	215,000	42,606
2021	210,000	38,579
2022	210,000	34,346
2023	180,000	29,384
2024-2028	880,000	79,718
2029	120,000	2,880
Total	<u>2,030,000</u> =====	<u>273,876</u> =====

As allowed by NDCC 6-09-49, the city has also received funding from the Infrastructure Revolving Loan Program from the Bank of North Dakota. The city is in the process of a street and water rehabilitation project (Street Improvement 2016) and has issued the Definitive Improvement Warrant, Series 2017, in the amount of \$7,500,000. As of December 31, 2018, the city had requested drawdowns of \$6,376,745.73. The infrastructure project was not completed as of December 31, 2018 and a final debt schedule is not available since the city had not yet received the full amount of drawdowns under this agreement. The outstanding balance at December 31, 2018 is \$6,376,745.73. The city has \$1,123,254.27 still available as of December 31, 2018.

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, 2018 are as follows:

\$238,715 Water and Sewer Extension Bonds of 2004, due in annual installments of \$13,000 to \$16,000 through September 1, 2023; interest is at 2.5%.	75,000.00
\$350,000 Refunding Improvement Bonds of 2015, due in annual installments of \$20,000 to \$30,000 through May 1, 2029; interest is at 1.6% to 2.15%.	295,000.00
Total Revenue Bonds	<hr/> 370,000.00 =====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	34,000	7,425
2020	34,000	6,755
2021	35,000	6,085
2022	41,000	5,350
2023	46,000	4,510
2024-2028	150,000	11,288
2029	30,000	323
Total	<hr/> 370,000 =====	<hr/> 41,735 =====

The city received funding as part of the Clean Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The city is in the process of a sanitary sewer improvement project and issued the Wastewater Treatment Revenue Bonds, Series 2015, in the amount of \$1,060,000. As of December 31, 2018, the city had requested drawdowns of \$830,477 and had made repayments of \$105,477. This project was not completed as of December 31, 2018 and a final debt service repayment schedule is not available since the city had not yet received the full amount of funding that is available as part of this agreement. The outstanding balance at December 31, 2018 is \$725,000. The city has \$229,523 of funds available that may be requested as of December 31, 2018.

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, 2018 are as follows:

\$63,281 Wastewater Improvement Revenue Bonds of 2001, due in annual installments of \$4,200 to \$4,300 through September 1, 2021; interest is at 2.5%.	12,800.00
\$676,556 Water Main Replacement Bonds 2004-1, due in annual installments of \$40,000 to \$45,000 through September 1, 2023; interest is at 2.5%.	220,000.00
\$1,042,000 Water Main Replacement Bonds of 2005, due in annual installments of \$18,200 to \$52,000 through August 25, 2045; interest is at 4.125%.	872,200.00
\$91,581 Water System Improvement Bonds of 2006, due in annual installments of \$5,000 to \$6,000 through September 1, 2026; interest is at 2.5%.	42,000.00
\$119,952 Water Treatment Revenue Bonds of 2007, due in annual installments of \$9,000 to \$11,000 through September 1, 2026; interest is at 2.5%.	78,000.00
\$400,000 Water Main Replacement Bonds of 2010, due in annual installments of \$17,304.95 through June 1, 2050; interest is at 3%.	346,106.45
\$1,526,000 Water Main Replacement Bonds of 2010, due in annual installments of \$68,716 through August 24, 2050; interest is at 3.25%.	1,354,452.00
\$1,210,000 Water System Improvement Revenue Bonds, Series A, due in annual installments of \$50,264 through March 21, 2056 and a final payment of \$49,489.48 on March 21, 2057; interest is at 2.75%.	1,193,011.00
\$110,000 Water System Improvement Revenue Bonds, Series B, due in annual installments of \$4,475 through July 18, 2056 and a final payment of \$4,456.32 on July 18, 2057; interest is at 2.625%.	108,412.50
Total Revenue Bonds	<u>4,226,981.95</u> =====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	120,182	124,472
2020	134,229	131,324
2021	136,603	127,388
2022	135,724	123,371
2023	138,295	119,355
2024-2028	480,171	544,821
2029-2033	509,367	465,248
2034-2038	600,777	373,909
2039-2043	709,027	265,694
2044-2048	667,954	144,201
2049-2053	390,622	54,824
2054-2057	204,031	14,132
 Total	 <u>4,226,982</u>	 <u>2,488,738</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, 2018:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
USDA/BND Project Reserves	57,200.00	
Water Operating		57,200.00
To set-aside funds for project reserves.		
Street Dept. Equip. Reserve	500.00	
Highway Distribution		500.00
Library Operating	255,227.53	
Library Endowment		255,227.53
Sewer Lift Station Replcmt.	12,400.00	
Sewer Utility		12,400.00
Water and Sewer Ext/2004	11,000.00	
Waterworks Sinking	53,500.00	
Harvey Community Develop.		5,000.00
Water Operating		42,000.00
Sewer Utility		17,500.00
Ball Park Addition	48,000.00	
Special Assessment Def.		48,000.00
Water Main Replacement:		
Phase I	20,000.00	
Harvey Area Growth Fund		20,000.00
To subsidize expenditures/eliminate deficit balances.		
Harvey Area Growth Fund	145,000.00	
Harvey Community Develop.		145,000.00
To transfer excess sales tax collections.		

Note 9 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2018:

<u>Special Revenue Funds</u>	
Sidewalk Improvement	(4,193.55)
Land Development Reserve	(121,464.12)
<u>Enterprise Funds</u>	
Garbage	(64.54)
Garbage Dept. Equipment Reserve	(80,934.77)

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 (NDIRF), 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 NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$1,795,788 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 \$1,580,000 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 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by active membership of the NDPERS system; one member elected by the retired public employees; and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service -
Greater of one percent of monthly salary or \$25
- 13 to 25 months of service -
Greater of two percent of monthly salary or \$25
- 25 to 36 months of service -
Greater of three percent of monthly salary or \$25
- Longer than 36 months of service -
Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense; and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the City of Harvey reported a liability of \$845,696 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017 the city's proportion was .052615 percent, which was an increase of .001681 from its proportion measured as of June 30, 2016.

For the year ended December 31, 2018 the city recognized pension expense of \$126,010. At December 31, 2018 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	5,027	4,120
Changes in assumptions	346,792	19,074
Net difference between projected and actual earnings on pension plan investments	11,374	
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,858	15,549
City contributions subsequent to the measurement date (see below)	40,184	
Total	<u>415,235</u>	<u>38,743</u>
	=====	=====

\$40,184 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	

2019	71,723
2020	87,330
2021	75,568
2022	65,352
2023	36,335
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.50%

Salary increases	Service at Beginning of Year	Increase Rate

	0	15.00%
	1	10.00%
	2	8.00%
	Age *	

	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

* Age-based salary increase rates apply for employees with three or more years of service.

Investment rate of return 7.75%, net of investment expenses.

Cost-of-living adjustments None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Equity Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

Discount rate. For PERS, GASB No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contribution, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payment payments through the year 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061. and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate. The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Rate (6.44%)	1% Increase (7.44%)
	-----	-----	-----
The city's proportionate share of the net pension liability	1,148,058	845,696	594,143

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

CITY OF HARVEY
Harvey, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	329,000.00	329,000.00	335,135.47	6,135.47
Licenses, Permits and Fees	39,800.00	39,800.00	35,915.20	(3,884.80)
Intergovernmental	184,000.00	184,000.00	138,195.01	(45,804.99)
Charges for Services	53,000.00	53,000.00	1.00	(52,999.00)
Fines and Forfeits	7,000.00	7,000.00	7,257.00	257.00
Miscellaneous	70,200.00	70,200.00	35,147.29	(35,052.71)
Total Revenues	683,000.00	683,000.00	551,650.97	(131,349.03)
<u>Expenditures:</u>				
Current:				
General Government	251,169.00	251,169.00	231,745.37	19,423.63
Public Safety	393,331.00	393,331.00	291,537.26	101,793.74
Streets and Public Works			12,433.71	(12,433.71)
Culture and Recreation	20,500.00	20,500.00	23,410.00	(2,910.00)
Capital Outlay	18,000.00	18,000.00		18,000.00
Total Expenditures	683,000.00	683,000.00	559,126.34	123,873.66
Net Change in Fund Balances			(7,475.37)	(7,475.37)
Fund Balance - January 1	114,709.30	114,709.30	114,709.30	
Fund Balance - December 31	114,709.30	114,709.30	107,233.93	(7,475.37)

CITY OF HARVEY
Harvey, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2018

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 for the year ending December 31, 2018:

	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
<u>Special Revenue Funds</u>			
City Share of Specials	14,000	3,149	17,149
Emergency	3,000	73	3,073
Band		887	887
Special Assmt. Interest	3,000	1,426	4,426
Street Repair Reserve	4,000	2,840	6,840
Land Development Reserve	10,000	17,907	27,907
Airport	37,500	11,479	48,979
<u>Debt Service Fund</u>			
Water Tower Specials #35	28,500	4,483	32,983
Water Treatment Plant	190,000	31,386	221,386
Street Improvement 2016		152,086	152,086

Appropriations

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
<u>Special Revenue Funds</u>			
Library	84,000	42,017	126,017
Band		547	547
Employee Pension		192	192
Centennial Park Project	4,000	3,370	7,370
Sidewalk Improvement	8,000	1,749	9,749
Convention and Visitor's Bureau	18,000	1,911	19,911
Harvey Area Growth Fund	163,750	183,071	346,821
<u>Debt Service Funds</u>			
Water & Sewer Extension/2004	15,500	108	15,608
Water Tower Specials #35	28,500	188	28,688
Water Treatment Plant	190,000	28,481	218,481
Ball Park Addition	74,000	1,681	75,681
Street Improvement 2016		19,406	19,406

Transfers In

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
Library		215,911	215,911

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following fund for the year ending December 31, 2018:

Special Revenue Fund

Harvey Community Development	23,248.45
------------------------------	-----------

CITY OF HARVEY
Harvey, North Dakota

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

	2018	2017	2016	2015
	-----	-----	-----	-----
City's proportion of the net pension liability	0.052615%	0.050934%	0.052138%	0.054711%
City's proportionate share of the net pension liability	845,696	496,401	354,529	347,262
City's covered-employee payroll	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	155.86%	91.43%	72.60%	74.28%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

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

	2018	2017	2016	2015
	-----	-----	-----	-----
Statutorily required contribution	38,633	38,655	34,769	30,933
Contributions in relation to the statutorily required contribution	(38,633)	(38,655)	(34,769)	(30,933)
Contribution deficiency (excess)	0	0	0	0
City's covered-employee payroll	542,592	542,908	488,331	467,523
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	6.62%

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

- For changes of assumptions, see Note 11 to the financial statements.

CITY OF HARVEY
Harvey, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2018

	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
Major Governmental Funds						
<u>General Fund</u>						
General Operating	(13,899.86)	551,649.97			557,161.78	(19,411.67)
Estate Tax	38,505.15					38,505.15
Equipment Reserve	59,013.24	1.00			1,964.56	57,049.68
Fire Dept. Equipment Reserve	30,850.14					30,850.14
Police Dept. Equipment Reserve	240.63					240.63
Total General Fund	114,709.30	551,650.97			559,126.34	107,233.93
Street Improvement 2016		4,268,210.77			4,268,210.77	
Total Major Governmental Funds	114,709.30	4,819,861.74			4,827,337.11	107,233.93
<u>Non-Major Governmental Funds</u>						
Highway Distribution	(26,191.39)	201,528.68		500.00	149,058.88	25,778.41
Social Security	5,421.30					5,421.30
City Share of Special Assmt.	58,421.93	17,149.31			956.69	74,614.55
Special Assessment Deficiency	60,045.40			48,000.00		12,045.40
Emergency	65.81	3,073.33				3,139.14
Recreation	12,102.47	21,947.62			18,680.69	15,369.40
Recreation Equipment Reserve	8,113.58					8,113.58
Babe Ruth Baseball Program		5,287.13			5,287.13	
<u>Library</u>						
Operating	(109,819.71)	44,683.03	255,227.53		126,016.84	64,074.01
Endowment	536,799.25			255,227.53		281,571.72
Band		887.00			547.00	340.00
Employee Pension	191.69				191.69	
Economic Development	104,209.73	10,734.58				114,944.31
Nonallocated Interest	14,869.06	32,218.14				47,087.20
Centennial Park Project	13,705.53				7,369.59	6,335.94
Special Assessment Interest	65,243.44	4,426.21				69,669.65
Sidewalk Improvement	(2,205.63)	7,761.48			9,749.40	(4,193.55)
Street Repair Reserve	16,790.55	6,839.51			600.00	23,030.06
Economic Development Reserve	34,856.78					34,856.78
Harvey Community Development Fund	100,914.15	220,757.79		150,000.00	105,110.45	66,561.49
Convention and Visitor's Bureau	33,034.31	15,292.84			19,911.03	28,416.12
Harvey Area Growth Fund	384,147.27	39,769.45	145,000.00	20,000.00	326,820.70	222,096.02
JDA Guarantee Setaside Fund	30,084.45					30,084.45
Land Development Reserve	(145,340.69)	27,906.74			4,030.17	(121,464.12)
Street Dept. Equipment Reserve	389.07		500.00		855.00	34.07
Airport	209.06	48,979.22			24,036.98	25,151.30
Infrastructure	104,787.19	235,079.41			166,349.52	173,517.08
Street Improvement #31A	3,215.78					3,215.78
Special Assessment District #32	245.90					245.90
Water & Sewer Extension/2004	27,121.69		11,000.00		15,607.50	22,514.19
Water Tower Specials #35	44,575.94	32,982.90			28,687.50	48,871.34
Water Treatment Plant	152,838.48	221,385.53			218,480.64	155,743.37
Ball Park Addition	1,548.05	26,694.85	48,000.00		75,680.75	562.15
Ballpark Water/Sewer and Street Project	60,636.03	61.18				60,697.21
Street Improvement 2016		152,086.03			2,100.69	149,985.34
Total Non-Major Governmental Funds	1,591,026.47	1,377,531.96	459,727.53	473,727.53	1,306,128.84	1,648,429.59
Total Governmental Funds	1,705,735.77	6,197,393.70	459,727.53	473,727.53	6,133,465.95	1,755,663.52

(continued)

CITY OF HARVEY
Harvey, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2018
(continued)

	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
<u>Major Enterprise Fund</u>						
<u>Water</u>						
Operating	73,555.57	395,529.84		99,200.00	318,367.86	51,517.55
Water Dept. Equipment Reserve	40,294.53					40,294.53
Reserve for Water Improvements	68,686.99					68,686.99
Waterworks Sinking	136,228.97	21,544.34	53,500.00		75,537.87	135,735.44
Ground Water Storage Project	1,967.61	122,945.94			122,945.94	1,967.61
USDA/BND Project Reserves	502,004.00		57,200.00			559,204.00
<u>Garbage</u>						
Operating	5,507.38	303,390.48			308,962.40	(64.54)
Garbage Dept. Equipment Reserve	(80,934.77)					(80,934.77)
<u>Water Main Replacement</u>						
Phase I	51,391.21	103,701.64	20,000.00		108,297.62	66,795.23
Phase II	193,454.44	89,429.03			103,325.95	179,557.52
Total Major Enterprise Fund	992,155.93	1,036,541.27	130,700.00	99,200.00	1,037,437.64	1,022,759.56
<u>Non-Major Enterprise Funds</u>						
Misquito Control	7,670.61	10,426.03			8,369.62	9,727.02
Customer Insurance Reserve	17,872.30				2,043.16	15,829.14
Sewer Lift Station Replacement	70,373.11		12,400.00		11,610.00	71,163.11
Sewer Utility	65,673.10	114,410.19		29,900.00	93,210.14	56,973.15
Sewer Lagoon #25	61,102.57					61,102.57
Total Non-Major Enterprise Funds	222,691.69	124,836.22	12,400.00	29,900.00	115,232.92	214,794.99
Total Enterprise Funds	1,214,847.62	1,161,377.49	143,100.00	129,100.00	1,152,670.56	1,237,554.55
Total Funds	2,920,583.39	7,358,771.19	602,827.53	602,827.53	7,286,136.51	2,993,218.07

Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

Phone: (701) 258-4560

Jayson Rath, CPA
Ken Mehrer, CPA

425 North Fifth Street
Bismarck, ND 58501

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, Harvey, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated February 15, 2019.

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) to determine the 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

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 determination of financial statement amounts. 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

The city's response to the findings identified in our audit are 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

February 15, 2019

CITY OF HARVEY
Harvey, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2018

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 X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one 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 financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2018 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.