

AUDIT REPORT

CITY OF HARVEY
Harvey, North Dakota

For the Year Ended December 31, 2016

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HARVEY
Harvey, North Dakota

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CITY OF HARVEY
Harvey, North Dakota

CITY OFFICIALS

Ann Adams	Mayor
Rick Eckart	Council President
Milo Baltrusch	Council Vice President
Donnie Hoepfer	Council Member
Linda Knudtson	Council Member
Ron Volk	Council Member
Bob Weninger	Council Member
Karen Nordby	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
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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, 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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, 2016, 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 client transactions are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also 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, schedule of fund activity arising from client transactions and the schedule of expenditures of federal awards 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, schedule of fund activity arising from client transactions and the schedule of expenditures of federal awards 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 3, 2017 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 3, 2017

CITY OF HARVEY

Management's Discussion and Analysis

December 31, 2016

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, 2016. 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, 2016 are as follows:

- * Total net position of the city increased \$657,148 as a result of the current year's operations. Net position of the governmental activities increased \$298,333 and net position of the business-type activities increased \$358,815.
- * Governmental net position totaled \$6,632,183 and business-type net position totaled \$4,590,922.
- * Total revenues from all sources were \$2,293,116 for governmental activities and \$1,370,519 for business-type activities.
- * Total expenses were \$1,910,783 for governmental activities and \$1,095,704 for business-type activities.
- * The city's general fund had \$555,842 in total revenues and \$669,144 in total expenditures. There was a total of \$2,363 paid from other financing uses. Overall, the general fund balance decreased by \$115,664 for the year ended December 31, 2016.

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, 2016?"

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, infrastructure fund and airport 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, 2016. 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 increased by \$657,148 for the year ended December 31, 2016. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2016, the city's net position of \$11,223,105 is segregated into three separate categories. Net investment in capital assets totals \$8,482,323. It should be noted that these assets are not available for future spending. The restricted component of net position is \$2,651,479 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 \$89,304, which includes (\$361,463) 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 \$450,767 is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,822,212	1,316,053
Capital Assets (net of accumulated depreciation)	8,908,453	7,625,492
Total Assets	<u>10,730,665</u>	<u>8,941,545</u>
Deferred Outflows of Resources	<u>89,342</u>	<u>0</u>
<u>Liabilities</u>		
Current Liabilities	298,000	1,312,300
Long-Term Liabilities	3,439,019	3,038,322
Net Pension Liability	354,529	
Total Liabilities	<u>4,091,548</u>	<u>4,350,622</u>
Deferred Inflows of Resources	<u>96,276</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	5,207,453	3,274,870
Restricted	1,717,151	934,328
Unrestricted	(292,421)	381,724
Total Net Position	<u>6,632,183</u> =====	<u>4,590,922</u> =====

Net Position
As of December 31, 2015

	Governmental	Business- Type
Assets		
Current Assets	2,114,444	2,298,298
Capital Assets (net of accumulated depreciation)	8,547,339	6,420,989
Total Assets	10,661,783	8,719,287
Deferred Outflows of Resources	64,577	0
Liabilities		
Current Liabilities	293,000	136,558
Long-Term Liabilities	3,684,461	4,350,622
Net Pension Liability	347,262	
Total Liabilities	4,324,723	4,487,180
Deferred Inflows of Resources	67,787	0
Net Position		
Net Investment in Capital Assets	4,596,851	3,132,270
Restricted	1,829,105	791,090
Unrestricted	(92,106)	308,747
Total Net Position	6,333,850	4,232,107

Table II shows the changes in net position for the fiscal year ended December 31, 2016. 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, 2016

	Governmental	Business- Type
Revenues		
Program Revenues:		
Charges for Services	141,425	1,008,721
Operating Grants and Contributions	1,071,684	310,754
General Revenues:		
Property Taxes	390,171	
Other Taxes	449,917	
Intergovernmental - Unrestricted	135,239	
Interest Earnings and Other Revenue	96,580	51,045
Gain on Trade-in of Capital Assets	8,100	
Total Revenues	2,293,116	1,370,519
Expenses		
General Government	328,834	
Public Safety	302,766	
Streets and Public Works	481,810	
Culture and Recreation	356,492	
Urban and Economic Development	268,221	
Other	82,710	
Interest on Long-Term Debt	89,951	
Water		393,326
Sewer		82,717
Garbage		353,578
Water Main Replacement		261,306
Mosquito Control		4,777
Total Expenses	1,910,783	1,095,704
Net Change in Position Before Transfers	382,333	274,815
Transfers	(84,000)	84,000
Net Change in Position	298,333	358,815

Property taxes constituted 11%, other taxes 12%, unrestricted intergovernmental 4%, operating grants and contributions 38%, and charges for services made up 31% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 11%, public safety 10%, streets and public works 16%, and enterprise 36% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	123,160	1,020,115
Operating Grants and Contributions	578,271	
<u>General Revenues:</u>		
Property Taxes	357,140	
Other Taxes	463,106	
Intergovernmental - Unrestricted	203,621	
Interest Earnings and Other Revenue	134,457	18,429
Total Revenues	<u>1,859,754</u>	<u>1,038,544</u>
Expenses		
General Government	301,482	
Public Safety	310,799	
Streets and Public Works	536,412	
Culture and Recreation	155,355	
Urban and Economic Development	192,219	
Other	214,016	
Interest on Long-Term Debt	67,298	
Discount On Bonds Issued	5,408	
Water		517,629
Sewer		107,857
Garbage		301,626
Water Main Replacement		241,470
Mosquito Control		12,374
Total Expenses	<u>1,782,989</u>	<u>1,180,956</u>
Net Change in Position Before Transfers	<u>76,765</u>	<u>(142,412)</u>
Transfers	<u>(181,000)</u>	<u>181,000</u>
Net Change in Position	<u>(104,235)</u>	<u>38,588</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, 2016

	Total Cost Year Ended <u>Dec. 31, 2016</u>	Net Cost Year Ended <u>Dec. 31, 2016</u>
General Government	328,834	294,774
Public Safety	302,766	274,135
Streets and Public Works	481,810	239,038
Culture and Recreation	356,492	196,506
Urban and Economic Development	268,221	268,221
Other	82,710	(376,054)
Interest on Long-Term Debt	89,951	(198,947)
 Total Expenses	 1,910,783 =====	 697,674 =====

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 \$2,293,116 and expenditures of \$2,540,338 for the year ended December 31, 2016. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$69,238 and total unassigned fund balances for all the city's governmental funds was (\$91,997).

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2016, the city amended the general fund budget. The gross effect of the amendments was to increase estimated revenues by \$69,297 and appropriations by \$179,388.

Actual revenue for the year ended December 31, 2016 was \$172,455 more than budgeted. This variance was due to the city overestimating collections for various charges for services and miscellaneous revenues. Actual expenditures for the year ended December 31, 2016 were under budget by \$169,244. This budget variance was due to the city overestimating appropriations for general government expenditures.

CAPITAL ASSETS

As of December 31, 2016, the city had \$16,533,945 invested in capital assets. The following table shows the balances, for governmental and business-type activities, as of December 31, 2016.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Land	108,853	9,200
Construction in Progress	557,694	1,427,669
Buildings and Infrastructure	7,633,425	6,065,242
Machinery and Vehicles	608,481	123,381
Total (net of depreciation)	<u>8,908,453</u> =====	<u>7,625,492</u> =====

This total represents an increase of \$1,565,617 in capital assets from January 1, 2016. The change in construction in progress was due to the city removing and replacing storm sewer lines during the year, an airport runway and taxiway electrical system improvement project and a ground water storage project. The city also purchased a Rosenbauer Firestar pumper fire truck. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 8 to the audited financial statements which follow this analysis.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Land	108,853	9,200
Construction in Progress	1,121,156	
Buildings and Infrastructure	6,796,341	6,261,747
Machinery and Vehicles	520,989	150,042
Total (net of depreciation)	<u>8,547,339</u> =====	<u>6,420,989</u> =====

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$8,087,641 in outstanding debt of which \$1,610,300 was due within one year. During fiscal year 2016, the city issued one new long-term debt obligation:

Revenue Bonds Payable, in the amount of \$38,989. The city issued the Wastewater Treatment Revenue Bonds, Series 2015, available funding of \$1,060,000 to finance a sanitary sewer improvement project. These bonds will have a final payment on September 1, 2035.

For a detailed breakdown of the long-term debt, readers are referred to Note 9 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, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	1,770,328.18	1,229,944.21	3,000,272.39
Accounts Receivable	3,210.12	86,108.39	89,318.51
Advances to Economic Development Projects	35,673.78		35,673.78
Contracts for Deeds	13,000.00		13,000.00
Capital Assets (net of accumulated depreciation):			
Land	108,853.00	9,200.00	118,053.00
Construction in Progress	557,694.00	1,427,669.00	1,985,363.00
Buildings and Infrastructure	7,633,425.00	6,065,242.00	13,698,667.00
Vehicles and Machinery	608,481.00	123,381.00	731,862.00
Total Capital Assets	8,908,453.00	7,625,492.00	16,533,945.00
Total Assets	10,730,665.08	8,941,544.60	19,672,209.68
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	89,342.00		89,342.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	220,000.00		220,000.00
Revenue Bonds Payable	78,000.00	1,312,300.39	1,390,300.39
Due After One Year:			
Special Assessment Bonds Payable	2,250,000.00		2,250,000.00
Revenue Bonds Payable	1,153,000.00	3,038,322.02	4,191,322.02
Compensated Absences Payable	36,018.92		36,018.92
Net Pension Liability	354,529.00		354,529.00
Total Liabilities	4,091,547.92	4,350,622.41	8,442,170.33
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	96,276.00		96,276.00
NET POSITION:			
Net Investment in Capital Assets	5,207,453.00	3,274,869.59	8,482,322.59
Restricted for:			
Debt Service	317,632.29	855,774.22	1,173,406.51
Customer Insurance		19,020.12	19,020.12
Water Deposits		12,370.00	12,370.00
Special Purposes	1,352,063.77		1,352,063.77
Ground Water Storage Project		47,164.01	47,164.01
CWSRF Sanitary Sewer	47,454.69		47,454.69
Unrestricted	(292,420.59)	381,724.25	89,303.66
Total Net Position	6,632,183.16	4,590,922.19	11,223,105.35

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, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Primary Government		Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants and Contributions			
Functions/Programs						
Primary Government:						
Governmental Activities:						
General Government	328,833.72	34,059.48		(294,774.24)		(294,774.24)
Public Safety	302,765.83	3,325.00	25,306.00	(274,134.83)		(274,134.83)
Streets and Public Works	481,809.76	98,302.99	144,468.48	(239,038.29)		(239,038.29)
Culture and Recreation	356,492.28	5,737.92	154,247.91	(196,506.45)		(196,506.45)
Urban and Economic Development	268,220.76			(268,220.76)		(268,220.76)
Other	82,709.51		458,763.44	376,053.93		376,053.93
Interest on Long-term Debt	89,951.31		288,898.43	198,947.12		198,947.12
Total Governmental Activities	1,910,783.17	141,425.39	1,071,684.26	(697,673.52)		(697,673.52)
Business-Type Activities:						
Water	393,325.99	381,957.34	310,753.89		299,385.24	299,385.24
Sewer	82,717.29	117,810.80			35,093.51	35,093.51
Garbage	353,578.32	316,585.93			(36,992.39)	(36,992.39)
Water Main Replacement	261,305.85	181,641.52			(79,664.33)	(79,664.33)
Mosquito Control	4,776.65	10,724.98			5,948.33	5,948.33
Total Business-Type Activities	1,095,704.10	1,008,720.57	310,753.89		223,770.36	223,770.36
Total Primary Government	3,006,487.27	1,150,145.96	1,382,438.15	(697,673.52)	223,770.36	(473,903.16)
General Revenues:						
Taxes:						
Property taxes; levied for general purposes				321,874.97		321,874.97
Property taxes; levied for special purposes				68,296.05		68,296.05
City sales taxes				423,829.93		423,829.93
Lodging taxes				18,879.72		18,879.72
Cigarette taxes				5,396.48		5,396.48
Gaming taxes				1,811.00		1,811.00
Intergovernmental revenue not restricted to specific programs				135,238.95		135,238.95
Earnings on investments and other revenue				96,579.66	51,044.65	147,624.31
Gain on sale of capital assets				8,100.00		8,100.00
Transfers				(84,000.00)	84,000.00	
Total General Revenues and Transfers				996,006.76	135,044.65	1,131,051.41
Change in Net Position				298,333.24	358,815.01	657,148.25
Net Position - January 1				6,333,849.92	4,232,107.18	10,565,957.10
Net Position - December 31				6,632,183.16	4,590,922.19	11,223,105.35

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, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Infrastructure	Airport		
ASSETS:					
Cash, Cash Equivalents and Investments	39,295.91	115,035.86		1,615,996.41	1,770,328.18
Accounts Receivable		1,624.41		1,585.71	3,210.12
Advances to Econ. Develop. Projects				35,673.78	35,673.78
Contract for Deed				13,000.00	13,000.00
Interfund Receivables	162,820.90				162,820.90
Total Assets	202,116.81	116,660.27	-0-	1,666,255.90	1,985,032.98
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payables			42,658.18	120,162.72	162,820.90
Fund Balances:					
Nonspendable:					
Economic Development Loans				35,673.78	35,673.78
Contract for Deed				13,000.00	13,000.00
Restricted for:					
General Government				5,859.49	5,859.49
Streets and Public Works				64,288.84	64,288.84
Economic Development				585,216.02	585,216.02
Culture and Recreation				480,539.01	480,539.01
Emergency				14,550.07	14,550.07
City Share of Specials				83,730.98	83,730.98
General Infrastructure Development		69,205.58			69,205.58
CWSRF Sanitary Sewer Project		47,454.69			47,454.69
Debt Service				317,632.29	317,632.29
Assigned to:					
Streets and Public Works				16,790.55	16,790.55
Economic Development				34,856.78	34,856.78
Equipment Purchases	132,878.59			12,532.38	145,410.97
Other Purposes					
Unassigned	69,238.22		(42,658.18)	(118,577.01)	(91,996.97)
Total Fund Balances	202,116.81	116,660.27	(42,658.18)	1,546,093.18	1,822,212.08
Total Liabilities and Fund Balances	202,116.81	116,660.27	-0-	1,666,255.90	1,985,032.98

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, 2016

Total Fund Balances for Governmental Funds	1,822,212.08
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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	13,524,087.00	
Less Accumulated Depreciation	(4,615,634.00)	
Net Capital Assets		8,908,453.00

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	89,342.00	
Total Deferred Inflows of Resources	(96,276.00)	
Net Deferred Outflows/Inflows of Resources		(6,934.00)

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, 2016 are:

Special Assessments Bonds Payable	(2,470,000.00)	
Revenue Bonds Payable	(1,231,000.00)	
Compensated Absences Payable	(36,018.92)	
Net Pension Liability	(354,529.00)	
Total Long-term Liabilities		(4,091,547.92)

Total Net Position of Governmental Activities	6,632,183.16
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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, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Infrastructure	Airport		
Revenues:					
Taxes	321,874.97	211,914.98	6,967.61	292,123.11	832,880.67
Special Assessments				288,898.43	288,898.43
Licenses, Permits and Fees	34,059.48			5,737.92	39,797.40
Intergovernmental	148,871.43		458,763.44	219,210.30	826,845.17
Charges for Services	4,420.72	14,607.63		79,274.64	98,302.99
Fines and Forfeits	3,325.00				3,325.00
Miscellaneous	43,290.48	1,340.88	18,685.12	139,750.27	203,066.75
Total Revenues	555,842.08	227,863.49	484,416.17	1,024,994.67	2,293,116.41
Expenditures:					
Current:					
General Government	209,781.51			81,148.63	290,930.14
Public Safety	286,346.83				286,346.83
Streets and Public Works		1,226.74		231,738.02	232,964.76
Culture and Recreation	22,285.84			323,874.44	346,160.28
Urban and Economic Development				268,220.76	268,220.76
Other	2,729.63		18,669.76	3,648.12	25,047.51
Capital Outlay	148,000.00	6,545.00	557,694.00		712,239.00
Debt Service:					
Principal		50,477.00		238,000.00	288,477.00
Interest and Service Charges		27,316.48		62,634.83	89,951.31
Total Expenditures	669,143.81	85,565.22	576,363.76	1,209,264.80	2,540,337.59
Excess (Deficiency) of Revenues Over Expenditures	(113,301.73)	142,298.27	(91,947.59)	(184,270.13)	(247,221.18)
Other Financing Sources (Uses):					
Transfers In	44,637.37			292,447.52	337,084.89
Transfers Out	(47,000.00)	(100,000.00)		(274,084.89)	(421,084.89)
CWSRF Revenue Bonds Issued		38,989.00			38,989.00
Total Other Financing Sources (Uses)	(2,362.63)	(61,011.00)		18,362.63	(45,011.00)
Net Change in Fund Balances	(115,664.36)	81,287.27	(91,947.59)	(165,907.50)	(292,232.18)
Fund Balance - January 1	317,781.17	35,373.00	49,289.41	1,712,000.68	2,114,444.26
Fund Balance - December 31	202,116.81	116,660.27	(42,658.18)	1,546,093.18	1,822,212.08

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, 2016

Net Change in Fund Balances - Total Governmental Funds (292,232.18)

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	712,239.00	
Current Year Depreciation Expense	(351,125.00)	361,114.00

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

Debt Proceeds	(38,989.00)	
Repayment of Debt	288,477.00	249,488.00

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 Increase in Compensated Absences	(9,045.58)	
Net Increase to Pension Expense	(10,991.00)	(20,036.58)

Change in Net Position of Governmental Activities		298,333.24
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The accompanying notes are an integral part of these financial statements.

CITY OF HARVEY
Harvey, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2016

	Major Enterprise Funds				Total Enterprise Funds
	Water	Garbage	Water Main Replacement	Other Enterprise Funds	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	748,009.69	65,458.55	223,522.00	192,953.97	1,229,944.21
Accounts Receivable	29,002.26	25,855.36	18,359.64	12,891.13	86,108.39
Total Current Assets	777,011.95	91,313.91	241,881.64	205,845.10	1,316,052.60
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Land	9,200.00				9,200.00
Construction in Progress	1,427,669.00				1,427,669.00
Buildings and Infrastructure	1,058,563.00	48,363.00	4,816,366.00	141,950.00	6,065,242.00
Machinery and Equipment	8,529.00	48,743.00		66,109.00	123,381.00
Total Noncurrent Assets	2,503,961.00	97,106.00	4,816,366.00	208,059.00	7,625,492.00
Total Assets	3,280,972.95	188,419.91	5,058,247.64	413,904.10	8,941,544.60
LIABILITIES					
Current Liabilities:					
Revenue Bonds Payable	1,214,000.00		90,300.39	8,000.00	1,312,300.39
Noncurrent Liabilities:					
Revenue Bonds Payable	16,900.00		2,934,422.02	87,000.00	3,038,322.02
Total Liabilities	1,230,900.00		3,024,722.41	95,000.00	4,350,622.41
NET POSITION					
Net Investment in Capital					
Assets	1,273,061.00	97,106.00	1,791,643.59	113,059.00	3,274,869.59
Restricted for:					
Debt Service	552,469.47		241,881.64	61,423.11	855,774.22
Customer Insurance				19,020.12	19,020.12
Water Deposits	12,370.00				12,370.00
Ground Water Storage Project	47,164.01				47,164.01
Unrestricted	165,008.47	91,313.91		125,401.87	381,724.25
Total Net Position	2,050,072.95	188,419.91	2,033,525.23	318,904.10	4,590,922.19

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, 2016

	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	368,106.29		181,641.52		549,747.81
Sewer Charges				117,810.80	117,810.80
Garbage Charges		253,488.37			253,488.37
Recycling		10,145.61			10,145.61
Other Fees	13,851.05	52,951.95		10,724.98	77,527.98
Total Operating Revenues	381,957.34	316,585.93	181,641.52	128,535.78	1,008,720.57
<u>Operating Expenses:</u>					
Water	345,206.74		12.21	192.00	345,410.95
Garbage		336,242.32			336,242.32
Sewer				62,893.29	62,893.29
Mosquito Control				4,776.65	4,776.65
Depreciation	46,368.00	17,336.00	142,728.00	16,734.00	223,166.00
Total Operating Expenses	391,574.74	353,578.32	142,740.21	84,595.94	972,489.21
Operating Income (Loss)	(9,617.40)	(36,992.39)	38,901.31	43,939.84	36,231.36
<u>Non-Operating Revenues (Expenses):</u>					
USDA-RD Grant	310,753.89				310,753.89
Interest Income	1,153.21				1,153.21
Miscellaneous Revenues	34,795.23		15,096.21		49,891.44
Interest Payments and Service Charges	(1,559.25)		(118,565.64)	(3,090.00)	(123,214.89)
Total Non-Operating Revenues (Expenses)	345,143.08		(103,469.43)	(3,090.00)	238,583.65
Income (Loss) Before Transfers	335,525.68	(36,992.39)	(64,568.12)	40,849.84	274,815.01
Transfers In	144,500.00	20,000.00	20,000.00	43,400.00	227,900.00
Transfers Out	(77,000.00)	(20,000.00)		(46,900.00)	(143,900.00)
Change in Net Position	403,025.68	(36,992.39)	(44,568.12)	37,349.84	358,815.01
Net Position - January 1	1,647,047.27	225,412.30	2,078,093.35	281,554.26	4,232,107.18
Net Position - December 31	2,050,072.95	188,419.91	2,033,525.23	318,904.10	4,590,922.19

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, 2016

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water	Garbage	Water Main Replacement		
<u>Cash flows from operating activities:</u>					
Receipts from customers	382,129.10	315,208.57	179,901.52	127,460.99	1,004,700.18
Payments to employees and suppliers	(345,206.74)	(336,242.32)	(12.21)	(67,861.94)	(749,323.21)
Net cash provided (used) by operating activities	36,922.36	(21,033.75)	179,889.31	59,599.05	255,376.97
<u>Cash flows from noncapital financing activities:</u>					
Miscellaneous receipts	34,795.23		15,096.21		49,891.44
Transfers in	144,500.00	20,000.00	20,000.00	43,400.00	227,900.00
Transfers out	(77,000.00)	(20,000.00)		(46,900.00)	(143,900.00)
Net cash provided (used) by noncapital financing activities	102,295.23		35,096.21	(3,500.00)	133,891.44
<u>Cash flows from capital and related financing activities:</u>					
USDA-RD grant	310,753.89				310,753.89
Ground water storage project	(1,427,669.00)				(1,427,669.00)
Principal payments	(33,900.00)		(94,657.66)	(8,000.00)	(136,557.66)
Interest payments and service charges	(1,559.25)		(118,565.64)	(3,090.00)	(123,214.89)
Net cash provided (used) by capital and related financing activities	(1,152,374.36)		(213,223.30)	(11,090.00)	(1,376,687.66)
<u>Cash flows from investing activities:</u>					
Interest income	1,153.21				1,153.21
Net increase in cash and cash equivalents	(1,012,003.56)	(21,033.75)	1,762.22	45,009.05	(986,266.04)
Cash and cash equivalents, January 1	1,760,013.25	86,492.30	221,759.78	147,944.92	2,216,210.25
Cash and cash equivalents, December 31	748,009.69	65,458.55	223,522.00	192,953.97	1,229,944.21
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>					
Operating income (loss)	(9,617.40)	(36,992.39)	38,901.31	43,939.84	36,231.36
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	46,368.00	17,336.00	142,728.00	16,734.00	223,166.00
Net (increase)/decrease in accounts receivable	171.76	(1,377.36)	(1,740.00)	(1,074.79)	(4,020.39)
Net cash provided (used) by operating activities	36,922.36	(21,033.75)	179,889.31	59,599.05	255,376.97

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

CITY OF HARVEY
Harvey, North Dakota

Notes to the Financial Statements
December 31, 2016

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.

Infrastructure. This fund accounts for the accumulation of city sales taxes and utility surcharge collections to be used specifically for general infrastructure development and the repayment of long-term debt obligations. The city also used this fund to account for the activities of the Storm Sewer Improvement District No. 2015-1.

Airport. This fund accounts for a special levy and state and federal grants used for the day to day operations and various projects of the city's airport.

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	20 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, 2016 the city's carrying amount of deposits was \$3,000,272 and the bank balance was \$3,514,633. Of the bank balance, \$750,000 was covered by Federal Depository Insurance. The remaining balance of \$2,764,633 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, 2016 the city held certificates of deposit in the amount of \$1,986,999, 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 ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from city residents for utility services provided.

Note 5 ADVANCES TO ECONOMIC DEVELOPMENT PROJECTS

Advances to economic development projects consist of loans to area businesses. The following amounts are outstanding at December 31, 2016:

<u>Borrower</u>	
Harvey's Coin Laundry	413.30
Dakota Computer Pros	14,500.00
Sheridan Animal Hospital	6,093.80
Perfection Auto	14,666.68
 Total	 <u>35,673.78</u>
	=====

Note 6 CONTRACT FOR DEED

The city has entered into a contract for deed with New Life on Main Church Org., Inc., for the sale of a building. The original amount of the contract was \$65,000.00, to be repaid in 10 annual installments of \$6,500.00 through January 1, 2019. The outstanding balance as of December 31, 2016 was \$13,000.00.

Note 7 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, 2016 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	162,820.90	
Airport		42,658.18
Highway Distribution		25,110.77
Land Development Reserve		95,051.95

Note 8 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	108,853			108,853
Construction in Progress	1,121,156	564,239	1,127,701	557,694
Total	<u>1,230,009</u>	<u>564,239</u>	<u>1,127,701</u>	<u>666,547</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	10,509,254	1,127,701		11,636,955
Machinery and Vehicles	1,162,585	148,000	90,000	1,220,585
Total	<u>11,671,839</u>	<u>1,275,701</u>	<u>90,000</u>	<u>12,857,540</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	3,712,913	290,617		4,003,530
Machinery and Vehicles	641,596	60,508	90,000	612,104
Total	<u>4,354,509</u>	<u>351,125</u>	<u>90,000</u>	<u>4,615,634</u>
Total capital assets being depreciated, net	<u>7,317,330</u>	<u>924,576</u>		<u>8,241,906</u>
Governmental Activities Capital Assets, Net	<u>8,547,339</u>	<u>1,488,815</u>	<u>1,127,701</u>	<u>8,908,453</u>

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	9,200			9,200
Construction in Progress		1,427,669		1,427,669
Total	9,200	1,427,669		1,436,869
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	9,994,629			9,994,629
Machinery and Vehicles	337,665			337,665
Total	10,332,294			10,332,294
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	3,732,882	196,505		3,929,387
Machinery and Vehicles	187,623	26,661		214,284
Total	3,920,505	223,166		4,143,671
Total capital assets being depreciated, net	6,411,789	(223,166)		6,188,623
Business-type Activities Capital Assets, Net	6,420,989	1,204,503	-0-	7,625,492

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

<u>Governmental Activities:</u>	
General Government	17,867
Public Safety	16,419
Streets and Public Works	248,845
Culture and Recreation	10,332
Other	57,662
Total	351,125
=====	
<u>Business-type Activities:</u>	
Water	46,368
Sewer	16,734
Garbage	17,336
Water Main Replacement	142,728
Total	223,166
=====	

Note 9 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Special Assmt. Bonds	2,695,000		225,000	2,470,000	220,000
Revenue Bonds	1,255,488	38,989	63,477	1,231,000	78,000
Comp. Absences *	26,973	9,046		36,019	
Total	<u>3,977,461</u>	<u>48,035</u>	<u>288,477</u>	<u>3,977,461</u>	<u>298,000</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>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	4,487,180	-0-	136,558	4,350,622	1,312,300

Outstanding debt at December 31, 2016 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, 2016 are as follows:

\$105,000 Improvement Bonds of 1997 due in a final installment of \$5,000 through May 1, 2017; interest is at 5.8%.	5,000.00
\$412,076 Water Treatment Assessment Bonds of 2002 due in annual installments of \$25,000 through September 1, 2022; interest is at 2.5%.	150,000.00
\$2,260,000 Refunding Improvement Bonds, Series 2012; due in annual installments of \$120,000 to \$140,000 through November 1, 2029; interest is at 1% to 2.4%.	1,665,000.00
\$800,000 Refunding Improvement Bonds, Series 2013; due in annual installments of \$50,000 to \$55,000 through May 1, 2028; interest is at 1.75% to 3.75%.	650,000.00
Total Special Assessments Bond Debt	<u>2,470,000.00</u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	220,000	53,545
2018	220,000	50,181
2019	215,000	46,364
2020	215,000	42,606
2021	210,000	38,579
2022-2026	925,000	125,444
2028-2029	465,000	20,884
Total	<u>2,470,000</u>	<u>377,603</u>
	=====	=====

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 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%.	101,000.00
\$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%.	335,000.00
Total Revenue Bonds	<u>436,000.00</u>
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	33,000	8,715
2018	33,000	8,070
2019	34,000	7,425
2020	34,000	6,755
2021	35,000	6,085
2022-2026	177,000	18,568
2027-2029	90,000	2,903
Total	<u>436,000</u>	<u>58,520</u>
	=====	=====

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, 2016, the city had requested drawdowns of \$830,477 and had made repayments of \$35,477. This project was not completed as of December 31, 2016 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, 2016 is \$795,000. The city has \$229,523 of funds available that may be requested as of December 31, 2016.

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, 2016 are as follows:

\$63,281 Wastewater Improvement Revenue Bonds of 2001, due in annual installments of \$4,000 to \$4,300 through September 1, 2021; interest is at 2.5%.	20,900.00
\$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%.	300,000.00
\$1,042,000 Water Main Replacement Bonds of 2005, due in annual installments of 16,800 to 52,000 through August 25, 2045; interest is at 4.125%.	906,500.00
\$91,581 Water System Improvement Bonds of 2006, due in annual installments of 4,000 to \$6,000 through September 1, 2026; interest is at 2.5%.	51,000.00
\$119,952 Water Treatment Revenue Bonds of 2007, due in annual installments of 8,000 to \$11,000 through September 1, 2026; interest is at 2.5%.	95,000.00
\$400,000 Water Main Replacement Bonds of 2010, due in annual installments of \$17,304.95 through June 1, 2050; interest is at 3%.	365,685.41
\$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%.	1,401,537.00
\$1,210,000 Loan Anticipation Temporary Revenue Bonds of 2015, due to be refinanced on April 1, 2017; interest is at 1.15%.	1,210,000.00
Total Revenue Bonds	<u>4,350,622.41</u> =====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	1,312,300	127,618
2018	106,043	102,550
2019	107,817	99,403
2020	114,621	96,193
2021	116,457	92,794
2022-2026	463,532	414,749
2027-2031	351,694	349,111
2032-2036	419,105	281,847
2037-2041	499,584	201,459
2042-2046	541,496	105,342
2047-2050	317,973	25,821
Total	<u>4,350,622</u> =====	<u>1,896,886</u> =====

Note 10 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, 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Fire Dept. Equip. Reserve	2,500.00	
Police Dept. Equip. Reserve	2,500.00	
General Fund		5,000.00
Garbage Dept. Equipment Res.	20,000.00	
Garbage		20,000.00
Street Dept. Equipment Res.	20,000.00	
Reserve for Water Improv.	50,000.00	
USDA/BND Project Reserves	45,000.00	
Infrastructure		80,000.00
Water Operating		35,000.00
To set-aside funds for various reserves.		
Library: Operating	51,288.60	
Library: Endowment		51,288.60
Social Security	26,000.00	
Employee Pensions	16,000.00	
General Fund		42,000.00
Sewer Lift Station Replcmt.	10,000.00	
Sewer Lagoon	10,000.00	
Sewer Utility		20,000.00
Water and Sewer Ext/2004	21,000.00	
Waterworks Sinking	49,500.00	
Sewer Lift Station Replcmt.	23,400.00	
Harvey Community Develop.		5,000.00
Infrastructure		20,000.00
Water Operating		42,000.00
Sewer Utility		26,900.00
Ball Park Addition	30,000.00	
City Share of Specials		30,000.00
Water Main Replacement:		
Phase I	20,000.00	
Harvey Area Growth Fund		20,000.00
To subsidize expenditures.		

Harvey Area Growth Fund	125,000.00	
Harvey Community Develop.		125,000.00
To transfer excess sales tax collections.		
General Fund	39,637.37	
Advertising		8,340.00
Planning and Zoning		9,535.16
Band		6,733.41
Nonallocated Interest		15,028.80
Recreation	1,647.20	
Skatepark		1,647.20
Economic Dev. Reserve	1,438.26	
CDLF Payback Reserve		1,438.26
Convention and Visitor's Bureau	73.46	
Harvey Fest		73.46
To close funds.		

Note 11 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2016:

Special Revenue Funds

Airport	(42,658.18)
Highway Distribution	(23,525.06)
Library Operating	(73,310.06)
Land Development Reserve	(95,051.95)

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

Note 12 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 \$1,627,337 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 \$1,200,000 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 13 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 seven 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; and one member elected by the retired public employees.

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, 2016, the City of Harvey reported a liability of \$354,529 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 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, 2015 the city's proportion was .052138 percent, which was a decrease of .002573 from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016 the city recognized pension expense of \$30,535. At December 31, 2016 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	10,285	
Changes in assumptions		31,587
Net difference between projected and actual earnings on pension plan investments	40,965	48,449
Changes in proportion and differences between employer contributions and proportionate share of contributions		16,240
City contributions subsequent to the measurement date (see below)	38,092	
Total	----- 89,342 -----	----- 96,276 -----

\$38,092 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, 2017.

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: -----	
2017	(12,860)
2018	(12,860)
2019	(12,860)
2020	2,605
2021	(9,054)
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, 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).

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, 2015, 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%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Equity Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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 8 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
	-----	-----	-----
The city's proportionate share of the net pension liability	543,653	354,529	199,792

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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	250,000.00	321,874.97	321,874.97	
Licenses, Permits and Fees	40,150.00	34,059.48	34,059.48	
Intergovernmental	244,150.00	148,871.43	148,871.43	
Charges for Services	55,000.00	55,000.00	4,420.72	(50,579.28)
Fines and Forfeits	6,700.00	3,325.00	3,325.00	
Miscellaneous	63,000.00	165,166.39	43,290.48	(121,875.91)
Total Revenues	659,000.00	728,297.27	555,842.08	(172,455.19)
<u>Expenditures:</u>				
Current:				
General Government	250,661.00	341,275.88	209,781.51	131,494.37
Public Safety	337,339.00	296,826.11	286,346.83	10,479.28
Culture and Recreation	31,000.00	22,285.84	22,285.84	
Other	30,000.00	30,000.00	2,729.63	27,270.37
Capital Outlay	10,000.00	148,000.00	148,000.00	
Total Expenditures	659,000.00	838,387.83	669,143.81	169,244.02
Excess (Deficiency) of Revenues Over Expenditures		(110,090.56)	(113,301.73)	(3,211.17)
<u>Other Financing Sources (Uses):</u>				
Transfers In			44,637.37	44,637.37
Transfers Out			(47,000.00)	(47,000.00)
Total Other Financing Sources (Uses)			(2,362.63)	(2,362.63)
Net Change in Fund Balances		(110,090.56)	(115,664.36)	(5,573.80)
Fund Balance - January 1	317,781.17	317,781.17	317,781.17	
Fund Balance - December 31	317,781.17	207,690.61	202,116.81	(5,573.80)

CITY OF HARVEY
Harvey, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Infrastructure Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	236,200.00	236,200.00	211,914.98	(24,285.02)
Charges for Services			14,607.63	14,607.63
Other			1,340.88	1,340.88
Total Revenues	236,200.00	236,200.00	227,863.49	(8,336.51)
<u>Expenditures:</u>				
Current:				
Street and Public Works	61,200.00	61,200.00	1,226.74	59,973.26
Capital Outlay	40,000.00	40,000.00	6,545.00	33,455.00
Debt Service:				
Principal	60,000.00	60,000.00	50,477.00	9,523.00
Interest and Service Charges	25,000.00	25,000.00	27,316.48	(2,316.48)
Total Expenditures	186,200.00	186,200.00	85,565.22	100,634.78
Excess (Deficiency) of Revenues Over Expenditures	50,000.00	50,000.00	142,298.27	92,298.27
<u>Other Financing Sources (Uses):</u>				
Transfers Out	(50,000.00)	(50,000.00)	(100,000.00)	(50,000.00)
CWSRF Revenue Bonds Issued			38,989.00	38,989.00
Total Other Financing Sources (Uses)	(50,000.00)	(50,000.00)	(61,011.00)	(11,011.00)
Net Change in Fund Balances			81,287.27	81,287.27
Fund Balance - January 1	35,373.00	35,373.00	35,373.00	
Fund Balance - December 31	35,373.00	35,373.00	116,660.27	81,287.27

CITY OF HARVEY
Harvey, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Airport Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	7,100.00	6,967.61	6,967.61	
Intergovernmental	1,236.00	458,763.44	458,763.44	
Miscellaneous	51,224.00	18,685.12	18,685.12	
Total Revenues	59,560.00	484,416.17	484,416.17	
<u>Expenditures:</u>				
Current:				
Other	39,605.00	18,669.76	18,669.76	
Capital Outlay	20,000.00	557,694.00	557,694.00	
Total Expenditures	59,605.00	576,363.76	576,363.76	
Net Change in Fund Balances	(45.00)	(91,947.59)	(91,947.59)	
Fund Balance - January 1	49,289.41	49,289.41	49,289.41	
Fund Balance - December 31	49,244.41	(42,658.18)	(42,658.18)	

CITY OF HARVEY
Harvey, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016

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, 2016:

	<u>Estimated Revenues</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	659,000	69,297	728,297
<u>Special Revenue Funds</u>			
City Share of Specials	14,000	2,682	16,682
Library	86,723	30,774	117,497
Economic Development	17,448	355	17,803
Centennial Park Project	3,500	114,959	118,459
Special Assmt. Interest	3,000	3,278	6,278
Sidewalk Improvement	10,000	4,627	14,627
Street Repair Reserve	2,000	24,457	26,457
Convention and Visitor's Bureau	16,000	2,880	18,880
Land Development Reserve	20,000	11,228	31,228
Airport	59,560	424,856	484,416
<u>Debt Service Fund</u>			
Water Tower Specials #35	30,438	19,922	50,360

	<u>Appropriations</u>		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
General Fund	659,000	179,388	838,388
<u>Special Revenue Funds</u>			
Social Security	31,904	426	32,330
Library	86,723	78,395	165,118
Employee Pension	38,917	8,847	47,764
Central Park Project	7,000	121,124	128,124
Street Repair Reserve	2,000	25,077	27,077
Convention and Visitor's Bureau	16,000	3,026	19,026
Land Development Reserve	20,000	29,975	49,975
Airport	59,605	516,759	576,364
<u>Debt Service Funds</u>			
Water & Sewer Extension/2004	16,130	258	16,388
Water Treatment Plant	175,365	448	175,813
Ball Park Addition	71,620	1,188	72,808

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ending December 31, 2016:

<u>Special Revenue Fund</u>	
Land Development Reserve	12,720.52
<u>Debt Service Fund</u>	
Street Improvement #31A	4.83

CITY OF HARVEY
Harvey, North Dakota

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

	2015 -----	2016 -----
City's proportion of the net pension liability	0.054711%	0.052138%
City's proportionate share of the net pension liability	347,262	354,529
City's covered-employee payroll	467,523	488,331
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	74.28%	72.60%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%

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

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

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

- For changes of assumptions, see Note 13 to the financial statements.

CITY OF HARVEY
Harvey, North Dakota

Schedule of Fund Activity
Arising from Client Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Revenues	Transfers In	Transfers Out	Expenditures	Balance 12-31-16
Major Governmental Funds						
<u>General Fund</u>						
Operating	8,667.80	541,821.36	39,637.37	47,000.00	512,393.46	30,733.07
Estate Tax	38,505.15					38,505.15
Equipment Reserve	64,935.84				2,729.63	62,206.21
Fire Dept. Equipment Reserve	168,250.14	9,600.00	2,500.00		149,500.00	30,850.14
Police Dept. Equipment Reserve	37,422.24	4,420.72	2,500.00		4,520.72	39,822.24
Total General Fund	317,781.17	555,842.08	44,637.37	47,000.00	669,143.81	202,116.81
Infrastructure	35,373.00	266,852.49		100,000.00	85,565.22	116,660.27
Airport	49,289.41	484,416.17			576,363.76	(42,658.18)
Total Major Governmental Funds	402,443.58	1,307,110.74	44,637.37	147,000.00	1,331,072.79	276,118.90
<u>Non-Major Governmental Funds</u>						
Highway Distribution	8,205.45	168,146.32			199,876.83	(23,525.06)
Social Security	11,607.31	143.73	26,000.00		32,329.74	5,421.30
City Share of Special Assmt.	100,696.69	16,682.41		30,000.00	3,648.12	83,730.98
Special Assessment Deficiency	60,045.40					60,045.40
Advertising	8,984.22	10.78		8,340.00	655.00	
Emergency	10,622.94	3,927.13				14,550.07
Planning and Zoning	9,922.00	13.16		9,535.16	400.00	
Recreation	9,181.81	27,928.35	1,647.20		25,260.77	13,496.59
Recreation Equipment Reserve	8,113.58					8,113.58
Skatepark	1,647.20			1,647.20		
Babe Ruth Baseball Program	(516.01)	4,537.92			4,021.91	
<u>Library</u>						
Operating	(25,688.37)	66,207.90	51,288.60		165,118.19	(73,310.06)
Endowment	587,981.59	106.26		51,288.60		536,799.25
Band	7,945.54	137.87		6,733.41	1,350.00	
Employee Pension	31,999.17	202.91	16,000.00		47,763.89	438.19
Economic Development	77,508.23	17,803.28			7,000.00	88,311.51
Nonallocated Interest	9,209.24	5,819.56		15,028.80		
Centennial Park Project	9,717.98	121,958.82			128,123.57	3,553.23
Special Assessment Interest	55,288.75	6,278.19				61,566.94
Sidewalk Improvement	(9,629.34)	14,626.72			4,784.69	212.69
Street Repair Reserve	17,410.00	26,457.05			27,076.50	16,790.55
Economic Development Reserve	33,418.52		1,438.26			34,856.78
Harvey Community Development Fund	59,741.68	215,349.45		130,000.00	53,268.84	91,822.29
Convention and Visitor's Bureau	35,841.46	18,879.72	73.46		19,026.29	35,768.35
Harvey Fest	73.46			73.46		
Harvey Area Growth Fund	316,984.81	43,474.62	125,000.00	20,000.00	126,230.01	339,229.42
JDA Guarantee Setaside Fund	30,084.45					30,084.45
Land Development Reserve	(76,304.83)	31,227.98			49,975.10	(95,051.95)
CDLF Payback Reserve	1,438.26			1,438.26		
Street Dept. Equipment Reserve	(15,581.20)		20,000.00			4,418.80
Street Improvement #31A	3,730.31	5,094.04			5,439.83	3,384.52
Water & Sewer Extension/2004	18,006.69		21,000.00		16,387.50	22,619.19
Water Tower Specials #35	44,000.47	30,282.48			30,187.50	44,095.45
Water Treatment Plant	100,916.96	195,287.39			175,812.50	120,391.85
Ball Park Addition	11,006.83	37,329.61	30,000.00		72,807.50	5,528.94
Ballpark Water/Sewer and Street Project	60,514.88	3,561.27				64,076.15
Total Non-Major Governmental Funds	1,614,126.13	1,061,474.92	292,447.52	274,084.89	1,196,544.28	1,497,419.40
Total Governmental Funds	2,016,569.71	2,368,585.66	337,084.89	421,084.89	2,527,617.07	1,773,538.30

(continued)

CITY OF HARVEY
Harvey, North Dakota

Schedule of Fund Activity
Arising from Client Transactions
For the Year Ended December 31, 2016
(continued)

	Balance 1-1-16	Revenues	Transfers In	Transfers Out	Expenditures	Balance 12-31-16
<u>Major Enterprise Fund</u>						
<u>Water</u>						
Operating	40,309.61	382,656.48		77,000.00	277,569.14	68,396.95
Water Dept. Equipment Reserve	49,714.16				9,419.63	40,294.53
Reserve for Water Improvements	18,686.99		50,000.00			68,686.99
Waterworks Sinking	80,011.21	34,096.09	49,500.00		58,141.83	105,465.47
Ground Water Storage Project	1,198,461.30	311,907.10			1,463,204.39	47,164.01
USDA/BND Project Reserves	402,004.00		45,000.00			447,004.00
<u>Garbage</u>						
Operating	80,861.57	316,585.93		20,000.00	336,242.32	41,205.18
Garbage Dept. Equipment Reserve	30,108.73		20,000.00			50,108.73
<u>Water Main Replacement</u>						
Phase I	29,569.40	105,659.88	20,000.00		109,904.35	45,324.93
Phase II	208,810.02	91,077.85			103,331.16	196,556.71
Total Major Enterprise Fund	2,138,536.99	1,241,983.33	184,500.00	97,000.00	2,357,812.82	1,110,207.50
<u>Non-Major Enterprise Funds</u>						
Misquito Control	(157.99)	10,724.98			4,776.65	5,790.34
Customer Insurance Reserve	19,212.12				192.00	19,020.12
Sewer Lift Station Replacement	39,113.11		33,400.00		11,090.00	61,423.11
Sewer Utility	50,491.45	117,810.80		46,900.00	62,893.29	58,508.96
Sewer Lagoon #25	51,102.57		10,000.00			61,102.57
Total Non-Major Enterprise Funds	159,761.26	128,535.78	43,400.00	46,900.00	78,951.94	205,845.10
Total Enterprise Funds	2,298,298.25	1,370,519.11	227,900.00	143,900.00	2,436,764.76	1,316,052.60
Total Funds	4,314,867.96	3,739,104.77	564,984.89	564,984.89	4,964,381.83	3,089,590.90

The above schedule is reported on a client basis, which includes client adjustments to cash and cash equivalents for accounts receivable in the highway, infrastructure, water, sewer, garbage, watermain replacement and mosquito control funds.

CITY OF HARVEY
Harvey, North Dakota

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor Pass-Through Grantor <u>Program Title</u>	Federal CFDA Number	Grant Number	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Rural Development - Direct Program:			
Water and Waste Disposal Systems for Rural Communities - Loans	10.760		1,210,000.00
Water and Waste Disposal Systems for Rural Communities - Grant	10.760		310,753.89
Total U.S. Department of Agriculture			<u>1,520,753.89</u>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Airport Improvement Program	20.106	3-38-0071-012-2015 3-38-0071-013-2016	2,109.00 456,372.00
Total Airport Improvement Program			<u>458,481.00</u>
<u>Environmental Protection Agency</u>			
Passed through the ND Public Finance Authority:			
Capitalization Grants for Clean Water State Revolving Fund	66.458	380877-04	38,989.00
Total Expenditures of Federal Awards			<u>2,018,223.89</u> =====

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

The de minimis indirect cost rate was not used.

Rath & Mehler, P.C.

Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Harvey
Harvey, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harvey, Harvey, North Dakota, as of and for the year ended December 31, 2016, 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 3, 2017.

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 is described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

February 3, 2017

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Harvey
Harvey, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Harvey's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the city's major federal program for the year ended December 31, 2016. The city's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the city's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the city's compliance.

Opinion on Each Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the City of Harvey is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the city's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the city's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

February 3, 2017

CITY OF HARVEY
Harvey, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2016

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

Federal Awards

Internal control over major program(s):

* Material weakness(es) identified? Yes X No

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

Type of auditor's report issued on
compliance for major program(s):

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)?

 Yes X No

Identification of major program(s):

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 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, 2016 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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.