

# **CITY OF WATFORD CITY**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

WITH INDEPENDENT AUDITOR'S REPORT

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**CITY OF WATFORD CITY**

**CITY OFFICIALS  
DECEMBER 31, 2019**

City Council  
Phil Riely  
Steve Sanford  
Ken Liebel  
Lindsay Wingerter  
Bethany Devlin  
Matt Beard  
Heidi Brenna

City Officials  
Peni Peterson, City Auditor  
Kathleen Howes, Finance Director  
Curt Moen, City Administrator  
Justin Smith, Public Works Superintendent  
Shawn Doble, Chief of Police



**SCHMITZ-  
HOLMSTROM**  
CERTIFIED PUBLIC ACCOUNTANTS

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### *Independent Auditor's Report*

City Council  
City of Watford City

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watford City, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise City of Watford City's basic financial statements as listed in the table of contents.

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

City of Watford City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watford City, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 2 to the financial statements:

- The overstatement of net position balances was discovered during the current year. Accordingly, adjustments have been made to beginning net position as of January 1, 2019 to correct the error.

As discussed in Note 3 to the financial statements:

- The overstatement of cash and accounts payable balances relating to the retirement of bonds were discovered during the current year. Accordingly, adjustments have been made to the net position to correct the error.
- The overstatement of account receivable balances relating to special assessment revenue was discovered during the current year. Accordingly, adjustments have been made to the net position to correct the error.

Our opinions are not modified with respect to these matters.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the schedule of the employer's proportionate share of net OPEB liability and employer contributions, schedule of the employer's proportionate share of net pension liability and employer contributions, statement of revenues, expenditures, and changes in fund balances – comparison of budget to actual general fund, statement of revenues, expenditures, and changes in fund balances – comparison of budget to actual Roughrider Sales Tax Fund, and notes to the required supplementary information on pages 45 – 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watford City's financial statements. The city officials listing is presented for purposes of additional analysis and is not a required part of the financial statements.

The city officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020 on our consideration of City of Watford 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 City of Watford City's internal control over financial reporting and compliance.

  
Bismarck, North Dakota  
November 2, 2020

**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 47,023,393	\$ 8,722,501	\$ 55,745,894
Intergovernmental receivable	4,692,795	-	4,692,795
Taxes receivable	71,552	-	71,552
Special assessments receivable	19,931,199	-	19,931,199
Accounts receivable	97,842	1,055,605	1,153,447
Restricted cash	245,999	1,060,490	1,306,489
Capital assets			
Nondepreciable	21,813,309	1,150,520	22,963,829
Depreciable, net	160,295,491	62,378,099	222,673,590
<b>Total assets</b>	<u>254,171,580</u>	<u>74,367,215</u>	<u>328,538,795</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	42,195	11,806	54,001
Pensions	1,739,797	486,772	2,226,569
Deferred charge - debt refunding	845,224	-	845,224
<b>Total deferred outflows of resources</b>	<u>2,627,216</u>	<u>498,578</u>	<u>3,125,794</u>
<b>LIABILITIES</b>			
Accounts payable	2,164,809	948,598	3,113,407
Retainage payable	79,718	-	79,718
Interest payable	247,470	183,382	430,852
Noncurrent liabilities			
Due within one year			
Compensated absences	75,000	15,000	90,000
General obligation bonds	45,000	-	45,000
Certificates of indebtedness	5,458,675	-	5,458,675
Revenue bonds, net of premium	770,000	783,000	1,553,000
Refunding improvement bonds, net of premium	890,000	-	890,000

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION - CONTINUED**  
**DECEMBER 31, 2019**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Due in more than one year			
Compensated absences	63,855	64,925	128,780
General obligation bonds	395,000	-	395,000
Certificates of indebtedness	40,405,724	-	40,405,724
Revenue bonds, net of premium	33,360,000	26,349,000	59,709,000
Refunding improvement bonds, net of premium	19,615,000	-	19,615,000
Net OPEB liability	213,143	59,634	272,777
Net pension liability	3,336,685	933,562	4,270,247
Total liabilities	<u>107,120,079</u>	<u>29,337,101</u>	<u>136,457,180</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	7,766	2,174	9,940
Pensions	1,676,058	468,938	2,144,996
Total deferred inflows of resources	<u>1,683,824</u>	<u>471,112</u>	<u>2,154,936</u>
<b>NET POSITION</b>			
Net investment in capital assets	81,169,402	36,396,618	117,566,020
Restricted for debt service	163,000	1,060,490	1,223,490
Restricted for city improvements	4,989,911	-	4,989,911
Restricted for road projects	78,264	-	78,264
Unrestricted	61,594,316	7,600,472	69,194,788
Total net position	<u>\$ 147,994,893</u>	<u>\$ 45,057,580</u>	<u>\$ 193,052,473</u>

See Notes to the Financial Statements



**CITY OF WATFORD CITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services, Fines, and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government</b>							
General government	\$ 10,322,061	\$ 316,402	\$ -	\$ -	\$ (10,005,659)	\$ -	\$ (10,005,659)
Public safety	4,803,053	89,243	16,428	-	(4,697,382)	-	(4,697,382)
Public works	3,758,700	-	-	225,209	(3,533,491)	-	(3,533,491)
Social and economic services	3,240,937	35,847	-	-	(3,205,090)	-	(3,205,090)
Interest on long-term debt	4,627,823	-	-	-	(4,627,823)	-	(4,627,823)
<b>Total governmental activities</b>	<b>26,752,574</b>	<b>441,492</b>	<b>16,428</b>	<b>225,209</b>	<b>(26,069,445)</b>	<b>-</b>	<b>(26,069,445)</b>
<b>Business-type activities</b>							
Water	2,599,987	2,955,432	-	-	-	355,445	355,445
Sewer	3,617,508	1,412,607	-	-	-	(2,204,901)	(2,204,901)
Garbage	1,524,639	1,727,261	-	-	-	202,622	202,622
<b>Total business-type activities</b>	<b>7,742,134</b>	<b>6,095,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,646,834)</b>	<b>(1,646,834)</b>
<b>Total primary government</b>	<b>\$ 34,494,708</b>	<b>\$ 6,536,792</b>	<b>\$ 16,428</b>	<b>\$ 225,209</b>	<b>(26,069,445)</b>	<b>(1,646,834)</b>	<b>(27,716,279)</b>
General revenue							
Property taxes					2,011,947	-	2,011,947
City sales tax					5,581,445	-	5,581,445
Oil and gas production tax					20,188,757	-	20,188,757
State aid and revenues not restricted to specific programs					8,535,899	-	8,535,899
Unrestricted interest income					84,044	-	84,044
Gain on sale of capital assets					-	-	-
Miscellaneous					1,263,655	-	1,263,655
Transfers					31,415	(31,415)	-
<b>Total general revenues</b>					<b>37,697,162</b>	<b>(31,415)</b>	<b>37,665,747</b>
Change in net position					<b>11,627,717</b>	<b>(1,678,249)</b>	<b>9,949,468</b>
Net position, beginning of year, as originally stated					137,321,983	46,735,829	184,057,812
Restatement					(954,807)	-	(954,807)
Net position, beginning of year, as restated					136,367,176	46,735,829	183,103,005
Net position, end of year					<b>\$ 147,994,893</b>	<b>\$ 45,057,580</b>	<b>\$ 193,052,473</b>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2019**

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 9,248,504	\$ 3,616,119	\$ 13,432,113	\$ 12,057,679	\$ 8,668,978	\$ 47,023,393
Restricted cash	163,000	-	-	-	82,999	245,999
Accounts receivable	97,842	-	-	-	-	97,842
Intergovernmental receivable	3,525,742	978,201	-	-	188,852	4,692,795
Taxes receivable	9,407	-	-	-	4,855	14,262
Special assessments receivable	-	-	-	5,285,863	-	5,285,863
Total assets	<u>13,044,495</u>	<u>4,594,320</u>	<u>13,432,113</u>	<u>17,343,542</u>	<u>8,945,684</u>	<u>57,360,154</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	-	-	-	-	-	-
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	1,385,024	-	327,669	-	394,825	2,107,518
Retainage payable	32,295	-	47,424	-	-	79,719
Total liabilities	<u>1,417,319</u>	<u>-</u>	<u>375,093</u>	<u>-</u>	<u>394,825</u>	<u>2,187,237</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable property taxes	28,035	-	-	-	4,855	32,890
Unavailable special assessments receivable	57,290	-	-	5,414,888	-	5,472,178
Total deferred inflows of resources	<u>85,325</u>	<u>-</u>	<u>-</u>	<u>5,414,888</u>	<u>4,855</u>	<u>5,505,068</u>
<b>FUND BALANCES</b>						
Restricted	163,000	4,022,329	13,057,020	11,928,654	1,045,846	30,216,849
Committed	1,131,273	571,991	-	-	101,081	1,804,345
Assigned	-	-	-	-	7,399,077	7,399,077
Unassigned	10,247,577	-	-	-	-	10,247,577
Total fund balances	<u>11,541,850</u>	<u>4,594,320</u>	<u>13,057,020</u>	<u>11,928,654</u>	<u>8,546,004</u>	<u>49,667,848</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,044,495</u>	<u>\$ 4,594,320</u>	<u>\$ 13,432,113</u>	<u>\$ 17,343,542</u>	<u>\$ 8,945,684</u>	<u>\$ 57,360,154</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**

Total fund balance, governmental funds		\$ 49,667,848
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds		
Cost of capital assets	199,684,272	
Less accumulated depreciation	<u>(17,575,472)</u>	
Net capital assets		182,108,800
Property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and are reported as deferred inflows in the governmental funds		
		5,505,069
Uncertified special assessments are not current financial resources and therefore are not reported in the governmental funds		
		14,645,336
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds		
		(3,272,946)
Net OPEB liability and OPEB related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds		
		(178,714)

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION - CONTINUED**  
**DECEMBER 31, 2019**

Noncurrent liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and concurrent, are reported in the Statement of Net Position. Balances at December 31, 2019 are:

Compensated absences	(138,855)	
Interest payable	(247,470)	
Certificates of indebtedness	(45,019,175)	
Bonds payable, net of premium	<u>(55,075,000)</u>	
Total noncurrent liabilities		<u>(100,480,500)</u>

Net position of governmental activities in the Statement of Net Position

\$ 147,994,893

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 1,096,933	\$ -	\$ -	\$ -	\$ 889,139	\$ 1,986,072
Licenses and permits	266,582	-	-	-	-	266,582
Special assessments	15,262	-	-	1,580,024	-	1,595,286
Intergovernmental revenues	20,930,771	5,581,444	1,250,208	-	767,252	28,529,675
Charges for services	49,820	-	-	-	-	49,820
Fines and forfeitures	89,243	-	-	-	-	89,243
Interest income	83,792	-	-	-	252	84,044
Other income	59,612	-	633,400	-	606,490	1,299,502
<b>Total revenues</b>	<b>22,592,015</b>	<b>5,581,444</b>	<b>1,883,608</b>	<b>1,580,024</b>	<b>2,263,133</b>	<b>33,900,224</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	4,178,926	-	-	-	1,418,341	5,597,267
Public safety	3,054,259	1,634,476	-	-	114,318	4,803,053
Public works	2,086	-	2,411,219	-	1,345,396	3,758,700
Social and economic services	2,137,737	-	694,799	-	408,402	3,240,938
<b>Debt service</b>						
Principal	-	-	-	5,860,859	-	5,860,859
Interest	-	-	-	4,627,823	-	4,627,823
Capital outlay	15,934	-	6,942,691	-	752,396	7,711,021
<b>Total expenditures</b>	<b>9,388,942</b>	<b>1,634,476</b>	<b>10,048,709</b>	<b>10,488,682</b>	<b>4,038,852</b>	<b>35,589,661</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>13,203,073</b>	<b>3,946,968</b>	<b>(8,165,101)</b>	<b>(8,908,658)</b>	<b>(1,775,719)</b>	<b>(1,699,437)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	18,684,681	-	15,680,934	6,945,288	6,712,858	48,023,761
Transfers out	(37,862,465)	(2,728,327)	(2,696,737)	(183,917)	(4,520,900)	(47,992,346)
Refunding debt proceeds	-	-	-	45,333,614	-	45,333,614
Payment to refunded debt escrow agent	-	-	-	(40,577,592)	-	(40,577,592)
<b>Total other financing sources (uses)</b>	<b>(19,177,784)</b>	<b>(2,728,327)</b>	<b>12,984,197</b>	<b>11,517,393</b>	<b>2,191,958</b>	<b>4,787,437</b>
<b>Net change in fund balance</b>	<b>(5,974,711)</b>	<b>1,218,641</b>	<b>4,819,096</b>	<b>2,608,735</b>	<b>416,239</b>	<b>3,088,000</b>
<b>Fund balance, beginning of year, as originally stated</b>	<b>17,516,561</b>	<b>3,375,679</b>	<b>8,237,924</b>	<b>9,502,688</b>	<b>8,129,764</b>	<b>46,762,616</b>
<b>Restatement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(182,768)</b>	<b>-</b>	<b>(182,768)</b>
<b>Fund balance, beginning of year as restated</b>	<b>17,516,561</b>	<b>3,375,679</b>	<b>8,237,924</b>	<b>9,319,920</b>	<b>8,129,764</b>	<b>46,579,848</b>
<b>Fund balance, end of year</b>	<b>\$ 11,541,850</b>	<b>\$ 4,594,320</b>	<b>\$ 13,057,020</b>	<b>\$ 11,928,655</b>	<b>\$ 8,546,003</b>	<b>\$ 49,667,848</b>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Net change in fund balances - total governmental funds \$ 3,088,000

Amounts reported for governmental activities in the  
Statement of Activities are different because:

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

Capital asset additions	9,170,447	
Current year depreciation	(5,494,275)	
Current year disposals	<u>(490,509)</u>	
		3,185,663

The net effect of various transactions  
involving assets is to increase net position.  
In the Statement of Activities, no expenditures  
are reported, whereas in the governmental funds,  
the expenditures decrease financial resources. (990,553)

Some revenues reported on the Statement of  
Activities are not reported as revenues in the  
governmental funds since they do not represent  
available resources to pay current expenditures.  
This consists of the change in taxes receivable  
and special assessments receivable. 5,505,070

Changes to net pension liability and pension related  
deferred outflows and inflows do not require the  
use of current financial resources and therefore  
are not reported as expenditures in governmental  
funds. (631,749)

See Notes to the Financial Statements

CITY OF WATFORD CITY

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2019

Changes to net OPEB liability and OPEB related deferred outflows and inflows do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(178,714)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>1,650,000</u>
	<u>\$ 11,627,717</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**DECEMBER 31, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,447,135	\$ 1,825,118	\$ 1,450,248	\$ 8,722,501
Accounts receivable	749,916	171,009	134,680	1,055,605
<b>Total current assets</b>	<u>6,197,051</u>	<u>1,996,127</u>	<u>1,584,928</u>	<u>9,778,106</u>
<b>NONCURRENT ASSETS</b>				
Restricted cash	-	1,060,490	-	1,060,490
Capital assets				
Nondepreciable	535,905	614,615	-	1,150,520
Depreciable, net	15,323,560	46,482,111	572,428	62,378,099
<b>Total non-current assets</b>	<u>15,859,465</u>	<u>48,157,216</u>	<u>572,428</u>	<u>64,589,109</u>
<b>Total assets</b>	<u>22,056,516</u>	<u>50,153,343</u>	<u>2,157,356</u>	<u>74,367,215</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
OPEB	2,373	4,540	4,893	11,806
Pension	97,835	187,188	201,749	486,772
<b>Total deferred outflows of resources</b>	<u>100,208</u>	<u>191,728</u>	<u>206,642</u>	<u>498,578</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	899,938	46,254	2,406	948,598
Interest payable	1,529	181,853	-	183,382
Compensated absences	5,000	5,000	5,000	15,000
Revenue bonds	18,000	765,000	-	783,000
<b>Total current liabilities</b>	<u>924,467</u>	<u>998,107</u>	<u>7,406</u>	<u>1,929,980</u>

See Notes to the Financial Statements



**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS - CONTINUED**  
**DECEMBER 31, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	8,060	27,877	28,988	64,925
Revenue bonds	164,000	26,185,000	-	26,349,000
Net OPEB liability	11,986	22,932	24,716	59,634
Net pension liability	187,635	359,000	386,927	933,562
<b>Total noncurrent liabilities</b>	<u>371,681</u>	<u>26,594,809</u>	<u>440,631</u>	<u>27,407,121</u>
<b>Total liabilities</b>	<u>1,296,148</u>	<u>27,592,916</u>	<u>448,037</u>	<u>29,337,101</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
OPEB	437	836	901	2,174
Pension	94,250	180,330	194,358	468,938
<b>Total deferred inflows of resources</b>	<u>94,687</u>	<u>181,166</u>	<u>195,259</u>	<u>471,112</u>
<b>NET POSITION</b>				
Net investment in capital assets	15,677,465	20,146,726	572,427	36,396,618
Restricted for debt service	-	1,060,490	-	1,060,490
Unrestricted	5,088,425	1,363,773	1,148,274	7,600,472
<b>Total net position</b>	<u>\$ 20,765,890</u>	<u>\$ 22,570,989</u>	<u>\$ 1,720,701</u>	<u>\$ 45,057,580</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Revenues				
Charges for services	\$ 2,955,432	\$ 1,412,607	\$ 1,727,261	\$ 6,095,300
Expenses				
Cost of services	1,955,450	803,803	1,059,230	3,818,483
Contractual and professional services	5,211	5,211	16,716	27,138
Materials and maintenance	41,809	35,676	337,982	415,467
Utilities	13,940	110,230	8,529	132,699
Supplies	44,256	62,619	14,210	121,085
Administration	5,552	25,560	25,698	56,810
Depreciation	557,926	1,902,586	63,253	2,523,765
Total operating expenses	<u>2,624,144</u>	<u>2,945,685</u>	<u>1,525,618</u>	<u>7,095,447</u>
Operating income (loss)	<u>331,288</u>	<u>(1,533,078)</u>	<u>201,643</u>	<u>(1,000,147)</u>
Nonoperating revenues (expenses)				
Interest expense	(4,832)	(551,075)	-	(555,907)
Miscellaneous income	29,984	17,727	979	48,690
Service charges and administrative fees	(995)	(138,475)	-	(139,470)
Total nonoperating revenues (expenses)	<u>24,157</u>	<u>(671,823)</u>	<u>979</u>	<u>(646,687)</u>
Net income (loss) before transfers	<u>355,445</u>	<u>(2,204,901)</u>	<u>202,622</u>	<u>(1,646,834)</u>
Transfers	<u>(407,415)</u>	<u>376,000</u>	<u>-</u>	<u>(31,415)</u>
Change in net position	<u>(51,970)</u>	<u>(1,828,901)</u>	<u>202,622</u>	<u>(1,678,249)</u>
Total net position, beginning of year	<u>20,817,860</u>	<u>24,399,890</u>	<u>1,518,079</u>	<u>46,735,829</u>
Total net position, end of year	<u>\$ 20,765,890</u>	<u>\$ 22,570,989</u>	<u>\$ 1,720,701</u>	<u>\$ 45,057,580</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,023,971	\$ 1,430,582	\$ 1,722,523	\$ 6,177,076
Receipts from other funds	324	310	-	634
Payments to suppliers	(1,828,550)	(503,955)	(842,692)	(3,175,197)
Payments to employees	(266,118)	(424,657)	(509,411)	(1,200,186)
	<u>929,627</u>	<u>502,280</u>	<u>370,420</u>	<u>1,802,327</u>
Net cash provided by operating activities				
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	-	-	-	-
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>				
Receipts from nonoperating activities	5,983	17,727	978	24,688
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments on debt	(17,000)	(745,000)	-	(762,000)
Interest paid	(5,827)	(689,549)	-	(695,376)
Intergovernmental transfers related to acquisition of capital assets	(407,415)	376,000	-	(31,415)
Receipts from restricted funds for capital asset purchases	24,000	-	-	24,000
Capital asset purchases	(332,770)	(24,364)	(422,937)	(780,071)
	<u>(739,012)</u>	<u>(1,082,913)</u>	<u>(422,937)</u>	<u>(2,244,862)</u>
Net cash used by capital and related financing activities				
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	196,598	(562,906)	(51,539)	(417,847)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	5,250,535	3,448,514	1,501,789	10,200,838
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,447,133</u>	<u>\$ 2,885,608</u>	<u>\$ 1,450,250</u>	<u>\$ 9,782,991</u>
Reconciliation of cash and cash equivalents				
Cash	\$ 5,447,135	\$ 1,825,118	\$ 1,450,248	\$ 8,722,501
Restricted cash	-	1,060,490	-	1,060,490
Total cash and cash equivalents	<u>\$ 5,447,135</u>	<u>\$ 2,885,608</u>	<u>\$ 1,450,248</u>	<u>\$ 9,782,991</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 331,288	\$ (1,533,078)	\$ 201,643	\$ (1,000,147)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	557,926	1,902,586	63,253	2,523,765
Effects on cash flows due to changes in				
Accounts receivable	68,863	18,357	(4,674)	82,546
Deferred outflows	115,038	10,627	6,004	131,669
Accounts payable	73,680	21,536	2,590	97,806
Deferred inflows	68,949	156,969	169,832	395,750
Net pension and OPEB liabilities	(286,116)	(74,717)	(68,229)	(429,062)
Net cash provided by operating activities	<u>\$ 929,628</u>	<u>\$ 502,280</u>	<u>\$ 370,419</u>	<u>\$ 1,802,327</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Note 1 - Summary of Significant Accounting Policies**

The City of Watford City, North Dakota (the "City") operates under a City Council form of government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Financial Reporting Entity**

The accompanying financial statements present the activities of the City of Watford 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 Governmental 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 of Watford 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 of Watford City. Based on these criteria, there are no component units to be included within the City of Watford City as a reporting entity.

**Related Organizations**

McKenzie County Public Library – The City and McKenzie County govern the library by a joint six-member board. The County administers the library fund and levies the necessary mills to pay budget expenses. The County contributes funds, supplies and equipment to the library. No funds, supplies, or equipment was contributed to the library in 2019.

McKenzie County Correctional Facility – The City and McKenzie County have entered into a joint powers agreement for the joint administration of a city-county regional correctional center that provides for the best interests of the citizens of McKenzie County and Watford City and promotes cooperation between them. The correctional facility has a governing board that consists of two County Commissioners, two City Council members and one member at large (citizen). The governing board of the correctional facility supervises the administration of expenditures, operations and management of the facility. Employees hired for the operation of the facility are employees of the County. The City is responsible for payment of an agreed upon per diem per inmate held and for payment of medical or health care costs of inmates held on violation of a Watford City ordinance or held at the request of the City. The City expended funds of \$114,317 in relation to the correctional facility in 2019. Financial statements for the McKenzie County Correctional Facility can be obtained through request of the McKenzie County Auditor's Office.

**Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year which all eligibility requirements have been satisfied.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers tax revenues to be available within 60 days of the end of the current fiscal year period. Other revenues are considered available if received one year after the fiscal year-end. Major revenues that are determined to be susceptible to the accrual include grant revenues. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Property taxes, licenses, special assessments, grants, oil and gas production tax, and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this identification are reported as nonoperating revenues and expenses.

**Government-Wide Financial Statements**

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the reporting entity, except for fiduciary funds. The statements distinguish between governmental activities, which are normally financed through taxes and intergovernmental revenues, and business-type activities, which are normally financed in whole or in part by fees and charges for services.

The Statement of Net Position presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designated to present financial information of the City at this more

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

detailed level. The focus of governmental and enterprise fund financial statements is on major funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- 1) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- 2) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

#### **Fund Financial Statements**

The fund financial statements provide information about the City's funds including its fiduciary funds. Separate statements for each category-governmental, proprietary and fiduciary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental 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 investment earnings, result from nonexchange transactions or ancillary activities.

#### **Financial Statement Presentation**

The City reports the following major governmental funds:

General Fund – This is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Roughrider Sales Tax Fund – This special revenue fund accounts for the financial resources generated by City sales taxes and transfers to funds to improve the buildings, facilities, etc. of the City.

Capital Projects Fund – This fund accounts for the financial resources and activity of all the other capital project funds being undertaken throughout the City.

Debt Service Fund – This fund accounts for the financial resources and activity for debt service requirements in the governmental funds.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

The City reports the following major enterprise funds:

Water – This fund is used to account for the operating and non-operating revenues and expenses of the water department. This fund is maintained on the full accrual basis of accounting.

Sewer – This fund is used to account for the operating and non-operating revenues and expenses for the sewer fund. The fund is maintained on the full accrual basis of accounting.

**Budgets and Budgetary Accounting**

The City Council follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year.

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or before October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10. Legal level of control is total expenditures by fund.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

The City prepares its budget and reports its governmental funds on the same basis of accounting.

**Cash and Cash Equivalents**

The City considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, except for certificates of deposit which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal.

**Restricted Cash**

Certain resources set aside in the general, water and sewer funds are classified as restricted assets because their use is limited by bond and loan covenants.

The City has restricted cash set aside in the road fund because its use is limited by external parties for specific projects. These funds are to be used to pay for the costs incurred on these projects.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Investments**

Investments are recorded at market value. North Dakota state statute authorizes cities to invest their surplus funds in:

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

As of December 31, 2019, all of the City's investments consisted of certificates of deposit with a local financial institution that meet the criteria of cash and cash equivalents and these investments are presented as cash and cash equivalents.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, curbs, etc.), are reported in the applicable governmental or business-type activities columns in the governmentwide financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the City's fiscal year. Improvements that significantly extend the useful life of the asset are also capitalized. Donated capital assets are recorded at acquisition value.

The City's capitalization policy is \$5,000 and an estimated useful life in excess of one year or more.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed, not capitalized.

All capital assets are depreciated over their estimated useful lives on a straight-line basis. The City has established the following useful lives:

Buildings and infrastructure	20-50 years
Machinery and equipment	5-15 years
Improvements other than buildings	15-40 years



**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

The City reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2019.

**Compensated Absences**

The City allows employees to accumulate earned but unused vacation and sick leave benefits. Unused vacation leave benefits are 100% payable upon termination and 1/6<sup>th</sup> of unused sick leave benefits are payable upon termination. Amounts are reported as liabilities in the appropriate governmental or business type activity in the government wide statements. Expenditure for unpaid vacation and sick leave benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting and expenses for vacation and sick leave benefits are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

**Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Pensions**

For purposes of measuring the 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 NDPERS and 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.

**Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. The long-term debt consists primarily of bonds payable. Bond premiums and discounts are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds are reported as debt service expenditures.

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and debt discounts as other financing uses. Payment of principal and interest is reported as expenditures. Issuance costs, whether or not withheld from debt proceeds received, are reported as debt service expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements. In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period.

**Net Position and Fund Balance**

The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is "net position" on government-wide, proprietary and fiduciary financial statements and "fund balance" on the governmental fund financial statements.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council – the City's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Assigned – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes but are neither restricted nor committed. The city council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first unless legal requirements disallow it. When committed, assigned, and unassigned funds are available for expenditures, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts unless the governing board has provided otherwise in its commitment or assignment actions.

**Internal and Interfund Balances and Activities**

In the process of aggregating the financial information for the government-wide statement of net position and statement of activities, some amounts reported as inter-fund activity and balances in the fund financial statements have been eliminated or reclassified.

**Property Taxes**

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1 of the year following the assessment date.

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15. Penalty and interest are added on March 1 if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid. Taxes are collected by the county and remitted monthly to the City.

**Abatements**

A tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to tax a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. As of December 31, 2019, the City of Watford City provided tax abatements in the form of property tax exemptions for properties used as affordable housing.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 – Prior Period Adjustment**

A prior period adjustment was necessary to properly state the beginning net asset balances. The result of this adjustment decreased net position for governmental activities by \$954,807.

**Note 3 – Current Year Restatements**

A current year restatement was necessary to adjust cash and accounts payable balances relating to the retirement of bonds. The result of this adjustment decreased net position for governmental activities by \$525,660.

A current year restatement was necessary to adjust accounts receivable balances relating to special assessment revenue. The result of this adjustment increased net position for governmental activities by \$342,892.

**Note 4 - Cash and Cash Equivalents**

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's cash and cash equivalents. These amounts must be deposited in a financial institution situated and doing business within this State. The City has no formal investment policy.

Custodial Credit Risk

This is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution. The City does not have a formal policy regarding deposits. In accordance with state statutes, the fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds.

At year end December 31, 2019, the City's carrying amount of deposits was \$57,052,383 and the bank balance was \$54,296,124. Of the bank balances \$34,535,368 was covered by Federal Depository Insurance or coverage substantially the same as that provided by federal deposit insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Note 5 - Accounts Receivable**

Accounts receivable are presented net of allowance for uncollectible accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. A receivable is considered past due if any portion of the balance is outstanding after the due date. As of December 31, 2019, all accounts were considered collectible and accordingly no allowance was recorded. There were also no discounts applied to balances in the current year. Activity between funds that are representative of lending/borrowing arrangements outstanding at fiscal year-end are referred to as "due to/from other funds." Advances between funds are not available to appropriation and are not expendable financial resources.

The special assessment receivable balance for the year ended December 31, 2019 was \$5,291,640. The amount of special assessment receivables that were delinquent for the year ended December 31, 2019 was \$105,548.

**Note 6 - Intergovernmental Receivable**

Intergovernmental receivables consist of reimbursements due from the State Treasurer for city sales tax, hospitality tax, grants and state aid.

**Note 7 - Capital Assets**

Capital asset activity for the year ended December 31, 2019 is as follows:

<b>Governmental Activities</b>	<b>Balance 1/1/19</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Balance 12/31/19</b>
Capital assets not being depreciated					
Land	\$ 6,633,753	\$ -	\$ -	\$ -	\$ 6,633,753
Construction in progress	7,513,320	7,999,441	(333,205)	-	15,179,556
Total capital assets not being depreciated	<u>14,147,073</u>	<u>7,999,441</u>	<u>(333,205)</u>	<u>-</u>	<u>21,813,309</u>
Capital assets being depreciated					
Buildings and infrastructure	109,078,338	84,437	333,205	(160,622)	109,335,358
Machinery and equipment	5,742,924	1,059,300	-	(204,137)	6,598,087
Improvements other than buildings	62,095,201	27,269	-	(184,952)	61,937,518
Total capital assets being depreciated	<u>176,916,463</u>	<u>1,171,006</u>	<u>333,205</u>	<u>(549,711)</u>	<u>177,870,963</u>

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Less accumulated depreciation					
Buildings and infrastructure	3,780,956	2,839,217	-	-	6,620,173
Machinery and equipment	2,564,804	499,518	-	(59,202)	3,005,120
Improvements other than buildings	<u>5,794,639</u>	<u>2,155,540</u>	<u>-</u>	<u>-</u>	<u>7,950,179</u>
Total accumulated depreciation	<u>12,140,399</u>	<u>5,494,275</u>	<u>-</u>	<u>(59,202)</u>	<u>17,575,472</u>
Total capital assets being depreciated	<u>164,776,064</u>	<u>(4,323,269)</u>	<u>333,205</u>	<u>(490,509)</u>	<u>160,295,491</u>
Governmental capital assets, net	<u>\$ 178,923,137</u>	<u>\$ 3,676,172</u>	<u>\$ -</u>	<u>\$ (490,509)</u>	<u>\$ 182,108,800</u>

Depreciation expense was charged to functions of the City as follows:

General government	\$ 4,177,514
Public safety	284,076
Public works	977,920
Social and economic services	<u>54,765</u>
Total depreciation expense	<u>\$ 5,494,275</u>

	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance 12/31/19</u>
<b>Business-Type Activities</b>					
Capital assets not being depreciated					
Land	\$ 25,143	\$ -	\$ -	\$ -	\$ 25,143
Construction in progress	<u>792,607</u>	<u>332,770</u>	<u>-</u>	<u>-</u>	<u>1,125,377</u>
Total capital assets not being depreciated	<u>817,750</u>	<u>332,770</u>	<u>-</u>	<u>-</u>	<u>1,150,520</u>
Capital assets being depreciated					
Buildings and infrastructure	68,732,613	-	-	-	68,732,613
Machinery and equipment	998,126	538,447	-	(174,980)	1,361,593
Improvements other than buildings	<u>2,803,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,803,159</u>
Total capital assets being depreciated	<u>72,533,898</u>	<u>538,447</u>	<u>-</u>	<u>(174,980)</u>	<u>72,897,365</u>
Less accumulated depreciation					
Buildings and infrastructure	6,951,113	2,364,053	-	-	9,315,166
Machinery and equipment	464,570	89,259	-	(83,835)	469,994
Improvements other than buildings	<u>663,653</u>	<u>70,453</u>	<u>-</u>	<u>-</u>	<u>734,106</u>
Total accumulated depreciation	<u>8,079,336</u>	<u>2,523,765</u>	<u>-</u>	<u>(83,835)</u>	<u>10,519,266</u>
Total capital assets being depreciated	<u>64,454,562</u>	<u>(1,985,318)</u>	<u>-</u>	<u>(91,145)</u>	<u>62,378,099</u>
Business-type capital assets, net	<u>\$ 65,272,312</u>	<u>\$ (1,652,548)</u>	<u>\$ -</u>	<u>\$ (91,145)</u>	<u>\$ 63,528,619</u>

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Business-type activities depreciation expense by fund is as follows:

Water	\$ 557,926
Sewer	1,902,586
Garbage	53,372
Surcharge	<u>9,881</u>
Total depreciation expense	<u>\$ 2,523,765</u>

**Note 8 - Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2019:

<b>Governmental Activities</b>	<b>Balance 1/1/19</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 12/31/19</b>	<b>Due Within One Year</b>
Compensated absences	\$ 138,855	\$ -	\$ -	\$ 138,855	\$ 75,000
General obligation bonds	485,000	-	45,000	440,000	45,000
Certificates of indebtedness	44,788,451	45,235,000	44,788,451	45,235,000	5,380,000
Plus unamortized premiums	-	629,399	-	629,399	78,675
Revenue bonds	34,880,000	-	750,000	34,130,000	770,000
Plus unamortized premiums	3,142,322	-	3,142,322	-	-
Refunding improvement bonds	21,360,000	-	855,000	20,505,000	890,000
Plus unamortized premiums	2,588,585	-	2,588,585	-	-
Total	<u>\$ 107,383,213</u>	<u>\$ 45,864,399</u>	<u>\$ 52,169,358</u>	<u>\$ 101,078,254</u>	<u>\$ 7,238,675</u>
<b>Business-Type Activities</b>	<b>Balance 1/1/19</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 12/31/19</b>	<b>Due Within One Year</b>
Compensated absences	\$ 79,925	\$ -	\$ -	\$ 79,925	\$ 15,000
Revenue bonds	27,894,000	-	762,000	27,132,000	783,000
Total	<u>\$ 27,973,925</u>	<u>\$ -</u>	<u>\$ 762,000</u>	<u>\$ 27,211,925</u>	<u>\$ 798,000</u>

Outstanding debt at December 31, 2019 (excluding compensated absences) consisted of the following issues:

**Certificates of Indebtedness**

\$45,235,000 Certificate of Indebtedness, Series 2019: due in six month installments of \$4,525,000 to \$6,240,000 through December 1, 2027; interest at 2.125% to 3% paid every six months; liquidated out of the debt service funds through transfers in from the general fund

	<u>\$ 45,235,000</u>
Total Certificates of Indebtedness	<u>\$ 45,235,000</u>

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Revenue Bonds**

<p>\$1,630,000 Oil and Gas Tax Revenue Refunding Bonds, Series 2013; due in annual installments of \$124,605 to \$130,811 through May 1, 2028; interest at .6% to 2.95% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund</p>	<p>\$ 1,030,000</p>
<p>\$35,550,000 Sales Tax Revenue Bonds, Series 2015; due in annual installments of \$2,268,375 to \$2,273,125 through June 1, 2045; interest at 2% to 5% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund</p>	<p><u>33,100,000</u></p>
<p>Total Revenue Bonds</p>	<p><u>\$ 34,130,000</u></p>

Revenue bonds are issued to finance capital improvement projects in which revenue from operations of such improvement projects or revenue pledged from a designated revenue stream is used to pay the debt service. The City has committed its oil and gas tax and public domain revenues to pay the annual principal and interest requirements on the 2013 oil and gas revenue bonds. Proceeds from the bonds were used to pay the remaining maturities of the Oil and Gas Tax Revenue Bonds of 2008. The bonds are payable through 2028. The total principal and interest remaining to be paid on the bonds is \$1,158,204. Principal payments of \$105,000 and interest payments of \$25,811 were made in the current year. The oil and gas tax and public domain revenues in the current year were \$16,807,559 and \$233,348, respectively.

The City committed one-half of the one and one-half percent sales and use tax revenues raised and collected to pay the annual principal and interest requirements on the 2015 sales tax revenue bonds. Bonds are also being repaid by oil and gas tax revenues. Proceeds from the bonds provided financing for building construction of the Watford City Event Center and community development. The City refunded the 2015 sales tax revenue bonds and issued Series 2019 certificates of indebtedness bonds in December 2019 for \$45,235,000. The new bonds are payable through 2027. The total principal and interest remaining to be paid on the new bonds is \$49,959,858. The sales tax revenues in the current year were \$4,603,244.



**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Refunding Improvement Bonds**

\$23,655,000 Refunding Improvement Bonds, Series 2015; due in annual installments of \$1,811,963 to \$1,880,313 through June 1, 2035; interest at 2% to 5.25% paid semi-annually; liquidated out of the debt service funds \$ 20,505,000

**Business-Type Activities**

\$347,464 Water Revenue Bonds, Series 2009; due in annual installments of \$18,061 to \$23,650 through September 1, 2028; interest at 2.5% paid semi-annually; liquidated with revenues generated for services provided out of the water fund \$ 182,000

\$808,588 Sewer Revenue Bonds, Series 2008; due in annual installments of \$49,125 to \$53,750 through September 1, 2028; interest at 2.5% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund 410,000

\$19,000,000 Sewer Revenue Bonds, Series 2015; due in annual installments of \$769,570 through September 1, 2045; interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund 16,935,000

\$14,000,000 Sewer Revenue Bonds, Series 2015B; due in annual annual installments of \$139,977 through September 1, 2046 interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund 9,605,000

Total business-type activities bonds \$ 27,132,000

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Revenue bonds are issued to finance capital improvement projects in which revenue from operations of such improvement projects or revenue pledged from a designated revenue stream is used to pay the debt service. The City has committed net revenues of the water fund to pay the annual principal and interest requirements on the 2009 water revenue bonds. Bonds are also being repaid with oil and gas tax revenues. Proceeds from the bonds provided financing for the project of improving the public water system utilities. The bonds are payable through 2028. The total principal and interest remaining to be paid on the bonds is \$205,625. Principal payments of \$17,000 and interest payments of \$4,975 were made in the current year. The water fund net revenues in the current year were \$331,289.

The City committed the net revenues of the sewer fund to pay the annual principal and interest requirements on the 2008 sewer revenue bonds. Bonds are also being repaid with oil and gas tax revenues. Proceeds from the bonds provided financing for the project of improving the public sewer system utilities. The bonds are payable through 2028. The total principal and interest remaining to be paid on the bonds is \$463,250. Principal payments of \$40,000 and interest payments of \$11,250 were made in the current year. The oil and gas production taxes revenue in the current year was \$16,807,559 and sewer fund net revenues in the current year were (\$1,533,078).

The City committed available oil and gas production tax revenue, net revenues of the sewer fund, earnings on any funds or accounts created by this debt, and any additional sources necessary to pay the annual principal and interest requirements on the 2015 sewer revenue bonds. Proceeds from the bonds provided financing for improvements to the City's wastewater facilities. The bonds are payable through 2045 and 2046. The City is authorized to issue up to \$33,000,000 in bonds, but only \$26,540,000 was advanced and outstanding at December 31, 2019. Principal payments of \$705,000 and interest payments of \$544,900 were made in the current year. The oil and gas production taxes revenue in the current year was \$16,807,559 and the sewer fund net revenues in the current year were (\$1,533,078).

The annual maturity of long-term debt of the City, except compensated absences payable, as of December 31, 2019 is as follows:

Year Ended December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	7,085,000	3,724,101	10,809,101	783,000	561,125	1,344,125
2021	7,250,000	3,559,045	10,809,045	798,000	545,600	1,343,600
2022	7,475,000	3,324,524	10,799,524	824,000	529,650	1,353,650
2023	7,725,000	3,073,475	10,798,475	845,000	513,400	1,358,400
2024	7,995,000	2,814,520	10,809,520	865,000	496,600	1,361,600
2025-2029	28,155,000	10,820,283	38,975,283	4,587,000	2,123,650	6,710,650
2030-2034	13,605,000	7,025,137	20,630,137	4,870,000	1,653,300	6,523,300
2035-2039	9,250,000	3,955,000	13,205,000	5,505,000	1,141,300	6,646,300
2040-2044	9,555,000	1,795,625	11,350,625	6,230,000	562,500	6,792,500
2045-2046	2,215,000	55,375	2,270,375	1,825,000	46,200	1,871,200

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

The City's bond documents include covenants that, in part, impose maintenance of certain reserve requirements, net operating revenues to debt service ratios and continuing disclosure requirements. The City was in compliance with all financial covenants as of December 31, 2019. However, the City was not in compliance with the continuing disclosure requirements. The failure to comply with the continuing disclosure requirements does not constitute an event of default on the bonds, but the bond holders will have any available remedy at law or in equity and the failure to provide the continuing disclosures must be reported and may adversely affect the transferability and liquidity of the Bonds and their market price.

**Note 9 - Transfers**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

The following is a list of transfers for the year ending December 31, 2019:

<b>Fund</b>	<b><u>Transfers In</u></b>	<b><u>Transfers Out</u></b>
Governmental funds		
General fund	\$ 18,684,681	\$ 37,862,465
Roughrider sales tax fund	-	2,728,327
Capital projects fund	15,680,934	2,696,737
Debt service fund	6,945,288	183,917
Nonmajor governmental funds	6,712,858	4,520,900
Water fund	52,000	459,415
Sewer fund	691,000	315,000
	<u>                    </u>	<u>                    </u>
Total transfers	<b><u>\$ 48,766,761</u></b>	<b><u>\$ 48,766,761</u></b>

The transfers in and out during 2019 were budgeted transfers.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Note 10 - Fund Balance**

At December 31, 2019, the governmental fund balance classifications are as follows:

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Restricted for						
City improvements	\$ -	\$ -	\$ -	\$ -	\$ 967,582	\$ 967,582
Capital projects	-	-	13,057,020	-	-	13,057,020
Debt service	163,000	4,022,329	-	11,928,654	-	16,113,983
Road projects	-	-	-	-	78,264	78,264
Committed for						
Capital projects	1,131,273	571,991	-	-	-	1,703,264
Economic development	-	-	-	-	101,081	101,081
Assigned for						
General government	-	-	-	-	1,712,214	1,712,214
Public safety	-	-	-	-	589,518	589,518
Economic development	-	-	-	-	2,838,857	2,838,857
Road projects	-	-	-	-	2,258,488	2,258,488
Unassigned	10,247,577	-	-	-	-	10,247,577
	<u>\$ 11,541,850</u>	<u>\$ 4,594,320</u>	<u>\$ 13,057,020</u>	<u>\$ 11,928,654</u>	<u>\$ 8,546,004</u>	<u>\$ 49,667,848</u>

**Note 11 – OPEB Plan**

**General Information about the OPEB Plan**

***North Dakota Public Employees Retirement System***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

At December 31, 2019, the Employer reported a liability of \$272,778 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the Employer's proportion was 0.339620 percent, which was an increase of 0.017303 from its proportion measured as of December 31, 2018.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

For the year ended December 31, 2019, the Employer recognized OPEB expense of \$44,074. At December 31, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,736	\$ 8,522
Changes of assumptions	32,511	-
Net difference between projected and actual earnings on pension plan investments	304	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,450	1,418
Employer contributions subsequent to the measurement date (see below)	<u>11,939</u>	<u>-</u>
<b>Total</b>	<u><u>\$ 65,940</u></u>	<u><u>\$ 9,940</u></u>

\$11,939 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020.

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

Year ended December 31:	
2020	\$ 2,072
2021	2,072
2022	2,072
2023	2,072
2024	2,269
Thereafter	2,475

**Actuarial assumptions.** The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.25%, net of investment expenses
Cost-of-living adjustments	None

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
Domestic Fixed Income	40%	2.07%
International Equities	21%	6.95%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the net OPEB liability of the Plans as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net OPEB liability	\$ 348,165	\$ 272,778	\$ 208,247

CITY OF WATFORD CITY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2019

**Note 12 – Pension Plan**

**General Information about the 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 plan is financed through the contributions and investment earnings of the plan.

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

***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member 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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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.



**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

***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 for 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 salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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 24 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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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

At December 31, 2019, the Employer reported a liability of \$4,270,246 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer'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, 2019, the Employer's proportion was 0.364333 percent, which was an increase of 0.021026 from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Employer recognized pension expense of \$1,017,214. At December 31, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,528	\$ 774,967
Changes of assumptions	1,595,679	1,370,028
Net difference between projected and actual earnings on pension plan investments	74,398	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	553,964	1
Employer contributions subsequent to the measurement date (see below)	<u>310,727</u>	<u>-</u>
Total	<u>\$ 2,537,296</u>	<u>\$ 2,144,996</u>

\$310,727 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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

Year ended December 31:

2020	\$ 380,563
2021	219,452
2022	(69,126)
2023	(339,878)
2024	(109,439)

**Actuarial assumptions.** The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary increases

<u>Service At Beginning Of Year</u>	<u>State Employee</u>	<u>Non-State Employee</u>
0	12.00%	15.00%
1	9.50%	10.00%
2	7.25%	8.00%
3		
4		
 <u>Age</u>		
Under 30	7.25%	10.00%
30-39	6.50%	7.50%
40-49	6.25%	6.75%
50-59	5.75%	6.50%
60+	5.00%	5.25%

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

Investment rate of return 7.50%, 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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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 of 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
Cash Equivalents	0%	0.00%

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net pension liability	\$ 6,122,614	\$ 4,270,246	\$ 2,713,934

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

**Note 13 - Conduit Debt**

The City has issued Multifamily Housing Revenue Bonds to provide financial assistance to private-sector entities for the construction of facilities deemed to be in the public interest. The bonds are secured by the financed property and are payable solely from the revenues generated from the facilities. Neither the City, State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**Note 14 – Abatements**

The affordable housing property tax exemption, NDCC Section 57-02-08 Subsection 43, is for all residential rental property, inclusive of land and administrative and auxiliary buildings, used as affordable housing and shall be exempt from taxation for the property's period of availability. The property must be owned by a qualified nonprofit entity, as defined in section 42 of the Internal Revenue Code [26 U.S.C. 42]. In 2019, the city abated a total of \$6,295 for two parcels that provide affordable housing.

**Note 15 - Commitments**

The City has entered into loan guarantees related to Wolf Run Village, a 501(c)(3) not-for-profit corporation. The City entered into these guarantees to address critical affordable housing needs for City, School and County employees. As of December 31, 2019 outstanding guaranteed loans were approximately \$5,622,010. Related to these guarantees the City has entered into joint powers agreements with McKenzie County Public School District No. 1 and McKenzie County. Under these agreements the School District and the County each agree to reimburse the City for 1/3 of each monthly guaranty obligation paid by the City up to \$15,000. For the year ending December 31, 2019 the City's share for expenditures related to the guaranty was approximately \$40,751.

The City has entered into an agreement with Watford City Golf Club, Inc. to maintain and operate the City owned Fox Hills Golf Course. As part of this agreement the City employs a maintenance and grounds superintendent and golf course manager to oversee the Golf Club's maintenance and operation of the golf course. The City is also committed to pay for the lease of the

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

maintenance certain equipment and to maintain adequate insurance. Related expenditures for these commitments were approximately \$256,666 for the current year. The City also loans equipment, machinery and employees to the Golf Club.

**Note 16 – Concentrations**

The City had certain tax and revenue which individually represented 10% or more of the City's total revenue. At December 31, 2019, Gross Production Tax for 2019 received by the State of North Dakota Treasurers Dept was \$19,457,414, and total receipts on all revenue details from the State of North Dakota for 2019 was \$26,669,585.

**Note 17 – Related Party Transactions**

The City had \$115,523 in expenses for architect fees to Icon Architectural Group, a council member's employer.

**Note 18 – Subsequent Events**

The Company has evaluated subsequent events through November 2, 2020, the date which the financial statements were available to be issued.

Effective for fiscal year 2020, property taxes will increase by an estimated 5.47% or \$186,314.

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a pandemic and on March 13, 2020 Governor of North Dakota declared a state of emergency in response to the COVID-19 public health crisis. As a result, economic uncertainties have arisen which are likely to negatively impact revenues. At the current time, we are unable to quantify the potential effects of this pandemic on our future financial statements.

Since March 2020, the City has cut back on projects, which included a 3% overall wage reduction.

# **CITY OF WATFORD CITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2019**

**CITY OF WATFORD CITY**  
**SCHEDULE OF THE EMPLOYER'S SHARE OF NET OPEB LIABILITY**  
**AND EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Schedule of Employer's Share of Net OPEB Liability**  
**ND Public Employees Retirement System**  
**LAST 10 FISCAL YEARS\***

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Employer's proportion of the net OPEB liability (asset)	0.321221%	0.322317%	0.339620%
Employer's proportionate share of the net OPEB liability (asset)	254,089	253,847	272,778
Employer's covered-employee payroll	3,475,104	3,526,851	3,789,680
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%	7.20%	7.20%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%	61.89%	63.13%

\*Complete data for this schedule is not available prior to 2017.

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutorily required contribution	40,396	41,368	44,074
Contributions in relation to the statutory required contribution	(38,009)	(44,132)	(45,135)
Contribution deficiency (excess)	2,387	(2,764)	(1,061)
Employer's covered-employee payroll	3,475,104	3,526,851	3,789,680
Contributions as a percentage of covered-employee payroll	1.09%	1.25%	1.19%

\*Complete data for this schedule is not available prior to 2017.



**CITY OF WATFORD CITY**  
**SCHEDULE OF THE EMPLOYER'S SHARE OF NET PENSION LIABILITY**  
**AND EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	0.243845%	0.301585%	0.340415%	0.343307%	0.364333%
Employer's proportionate share of the net pension liability (asset)	1,658,103	2,939,240	5,471,585	5,793,680	4,270,246
Employer's covered-employee payroll	2,172,351	3,039,267	3,475,104	4,058,943	3,789,680
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	96.71%	157.45%	164.27%	112.68%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	71.10%	62.70%	89.76%	112.68%

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

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

	2015	2016	2017	2018	2019
Statutorily required contribution	301,756	350,012	370,162	259,768	275,910
Contributions in relation to the statutory required contribution	(301,756)	(350,012)	(370,162)	(275,630)	(281,898)
Contribution deficiency (excess)	-	-	-	(15,862)	(5,988)
Employer's covered-employee payroll	2,785,187	3,231,792	3,417,942	3,526,851	3,789,680
Contributions as a percentage of covered-employee payroll	10.83%	10.83%	10.83%	7.82%	7.44%

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

**CITY OF WATFORD CITY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**COMPARISON OF BUDGET AND ACTUAL – GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Taxes	\$ 1,077,680	\$ 1,077,680	\$ 1,096,933	\$ 19,253
Licenses and permits	151,750	151,750	266,582	114,832
Intergovernmental revenues	16,598,508	16,598,508	20,930,771	4,332,263
Charges for services	50,300	50,300	49,820	(480)
Fines and forfeitures	104,250	104,250	89,243	(15,007)
Miscellaneous	123,075	123,075	158,666	35,591
Internal services	-	-	-	-
<b>Total revenues</b>	<b>18,105,563</b>	<b>18,105,563</b>	<b>22,592,015</b>	<b>4,486,452</b>
<b>Expenditures</b>				
General government	3,371,555	9,830,293	4,194,860	(5,635,433)
Public safety	3,379,153	3,379,153	3,054,259	(324,894)
Public works	5,500	5,500	2,086	(3,414)
Social and economic services	1,079,000	1,079,000	2,137,737	1,058,737
<b>Total expenditures</b>	<b>7,835,208</b>	<b>14,293,946</b>	<b>9,388,942</b>	<b>(4,905,004)</b>
<b>Excess (deficiency) of revenues over expenditures</b>				
<b>Other financing sources (uses)</b>				
Transfers in	8,000,000	8,000,000	18,684,681	10,684,681
Transfers out	(16,271,186)	(16,271,186)	(37,862,465)	(21,591,279)
<b>Total other financing sources and uses</b>	<b>(8,271,186)</b>	<b>(8,271,186)</b>	<b>(19,177,784)</b>	<b>(10,906,598)</b>
<b>Net change in fund balance</b>	<b>\$ 1,999,169</b>	<b>\$ (4,459,569)</b>	<b>(5,974,711)</b>	<b>\$ (1,515,142)</b>
Fund Balance - beginning			17,516,561	
Fund Balance - ending			<b>\$ 11,541,850</b>	

CITY OF WATFORD CITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
COMPARISON OF BUDGET AND ACTUAL – ROUGHRIDER SALES TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental revenues	\$ 4,000,000	\$ 4,000,000	\$ 5,581,444	\$ 1,581,444
Expenditures				
Social and economic services	<u>2,000,000</u>	<u>2,362,803</u>	<u>1,634,476</u>	<u>(728,327)</u>
Excess (deficiency) of revenues over expenditures				
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,728,327)</u>	<u>(728,327)</u>
Total other financing sources and uses	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,728,327)</u>	<u>(728,327)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (362,803)</u>	1,218,641	<u>\$ 1,581,444</u>
Fund balance - beginning			<u>3,375,679</u>	
Fund balance - ending			<u>\$ 4,594,320</u>	

**CITY OF WATFORD CITY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

***Note 1 – OPEB: Changes of benefit terms and assumptions.***

Changes of benefit terms. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions. The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

***Note 2 – Pension: Changes of benefit terms and assumptions.***

Changes of benefit terms. The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions. The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

***Note 3 – Budget to Actual: Stewardship, Compliance, and Accountability***

**Budgetary Information**

The City Council adopts an annual budget on a basis consistent with the cash basis of accounting for the general fund, each special revenue fund and each debt service fund of the municipality.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

**CITY OF WATFORD CITY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

- On or before September 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements 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 disbursement shall be made, or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue 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 proceedings of the board. All annual appropriations lapse at year-end.



**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**

The City Council  
City of Watford City

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watford City as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise City of Watford City's basic financial statements, and have issued our report thereon dated November 2, 2020.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered City of Watford 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 City of Watford City's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Watford City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses: 2019-001 and 2019-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Watford City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2019-003.

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

City of Watford City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Watford City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



Bismarck, North Dakota

November 2, 2020

**CITY OF WATFORD CITY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**2019-001 Preparation of Financial Statements**

**Material Weakness in Internal Control over Financial Reporting**

Criteria – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements and accompanying notes to the financial statements.

Condition – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause – The control deficiency could result in a misstatement in the presentation of the financial statements.

Effect – Inadequate control over financial reporting of the City could result in the more than a remote likelihood that the City would not be able to draft the financial statements and accompanying notes to the financial statements without material errors.

Recommendation – The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – Upon review, City Officials are in agreement with the finding noted.

**2019-002 Segregation of Duties**

**Material Weakness In Internal Control over Financial Reporting**

Criteria - A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion and that there is proper approval of transactions.

Condition – The City has a lack of segregation of duties in certain areas, specifically the cash receipt process and the review and approval process of manual journal entries due to limited staff.

Cause – The City has not implemented internal control procedures to ensure there is adequate segregation of duties related to all transactions handled in the accounting office and there are a limited number of employees to segregate all of the duties.

Effect - Inadequate segregation of duties could adversely affect the City's ability to detect potential material misstatements to the financial statements or fraudulent activity in a timely manner.

Recommendation – While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible.



Views of Responsible Officials – Upon review, City Officials are in agreement with the finding noted.

**Compliance Item for Continuing Disclosure  
2019-003 Failure to Provide Continuing Disclosure**

Criteria – The City's bonds include continuing disclosure requirements that the City is required to submit to comply with SEC rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934.

Condition – The City did not complete the required continuing disclosures within 12 months of its year-end which was by December 31, 2019 for the year ended December 31, 2018.

Cause – The City was aware of the continuing disclosure requirements but the audit report for the year ended December 31, 2018 was not finalized until October 30, 2019.

Effect - The failure to comply with the continuing disclosure requirements do not constitute an event of default on the bonds, but the bond holders will have any available remedy at law or in equity and the failure to provide the continuing disclosures must be reported and may adversely affect the transferability and liquidity of the Bonds and their market price.

Recommendation – We recommend that the City continue providing the completed audit reports immediately after they are finalized.

Views of Responsible Officials – Upon review, City Officials are in agreement with the finding noted.



**SCHMITZ-  
HOLMSTROM**  
CERTIFIED PUBLIC ACCOUNTANTS

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November 2, 2020

Management and the City Council  
City of Watford City  
213 2<sup>nd</sup> St NE  
Watford City, ND 58854

We have audited the financial statements of City of Watford City as of and for the year ended December 31, 2019, and have issued our report thereon dated November 2, 2020. Professional standards require that we advise you of the following matters relating to our audit.

#### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated August 26<sup>th</sup> 2019, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of Watford City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting material weaknesses and material noncompliance, and other matters noted during our audit in a separate letter to you dated August 6, 2020.

#### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Watford City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of depreciation is based on the estimated useful life of the asset and the straight-line method of calculating depreciation expense. We evaluated the key factors and assumptions used to develop the depreciation and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting City of Watford City's financial statements relate to revenue recognition.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes the material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to City of Watford City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated November 2, 2020.

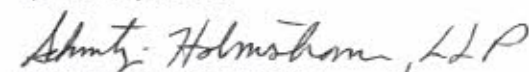
### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with City of Watford City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Watford City's auditors.

This report is intended solely for the information and use of the city Council, and management of City of Watford City and is not intended to be and should not be used by anyone other than these specified parties.

  
Bismarck, North Dakota  
November 2, 2020