



Financial Statements
December 31, 2017
City of Watford City

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City Council

Justin Voll
Steve Sanford
Ken Liebel
Phil Riely
Aaron Gravos
Bethany Devlin
Matt Beard

City Officials

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



Independent Auditor's Report

City Council
City of Watford City
Watford City, North Dakota

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 the City of Watford City, North Dakota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 the City of Watford City, North Dakota, as of December 31, 2017, 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.

Correction of Error

As discussed in Note 12 to the financial statements, certain errors resulting in misstatements of amounts previously reported for accounts payable, expenditures, accumulated depreciation, depreciation expense, capital contributions, construction in progress and machinery and equipment as of December 31, 2016, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of January 1, 2017 to correct the errors. 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 pension liability, schedule of the employer's contributions, statement of revenues, expenditures and changes in fund balances – comparison of budget and actual general fund, and statement of revenues, expenditures and changes in fund balances – comparison of budget and actual Roughrider sales tax fund on pages 40 through 44 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, economic, or historical context. Our opinion on the basic financial statements is not affected by the 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, North Dakota'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 October 30, 2019 on our consideration of the City of Watford City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Watford City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watford City's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed address and date.

Bismarck, North Dakota
October 30, 2019

City of Watford City
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 35,922,893	\$ 9,808,742	\$ 45,731,635
Restricted cash	241,264	935,220	1,176,484
Intergovernmental receivable	3,799,999	-	3,799,999
Taxes receivable	32,890	-	32,890
Special assessments receivable	23,742,675	-	23,742,675
Accounts receivable	225,351	1,141,186	1,366,537
Capital assets not being depreciated	13,175,768	817,750	13,993,518
Capital assets, net of accumulated depreciation	<u>171,151,604</u>	<u>66,991,678</u>	<u>238,143,282</u>
Total assets	<u>248,292,444</u>	<u>79,694,576</u>	<u>327,987,020</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	<u>2,439,109</u>	<u>781,965</u>	<u>3,221,074</u>
Liabilities			
Accounts payable	2,712,003	1,033,762	3,745,765
Retainage payable	317,578	-	317,578
Interest payable	296,697	193,873	490,570
Noncurrent liabilities			
Due within one year			
Compensated absences	75,000	15,000	90,000
General obligation bonds	45,000	-	45,000
Certificates of indebtedness	4,723,012	-	4,723,012
Revenue bonds, net of premium	840,859	729,619	1,570,478
Refunding improvement bonds, net of premium	976,787	-	976,787
Due in more than one year			
Compensated absences	63,855	64,925	128,780
General obligation bonds	485,000	-	485,000
Certificates of indebtedness	44,328,743	-	44,328,743
Revenue bonds, net of premium	38,022,322	27,909,000	65,931,322
Refunding improvement bonds, net of premium	23,948,585	-	23,948,585
Net pension liability	<u>4,143,273</u>	<u>1,328,312</u>	<u>5,471,585</u>
Total liabilities	<u>120,978,714</u>	<u>31,274,491</u>	<u>152,253,205</u>

City of Watford City
Statement of Net Position
December 31, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	<u>113,637</u>	<u>36,432</u>	<u>150,069</u>
Net Position			
Net investment in capital assets	70,957,064	39,170,809	110,127,873
Restricted for debt service	163,000	935,220	1,098,220
Restricted for city improvements	11,733,078	-	11,733,078
Restricted for road projects	78,264	-	78,264
Unrestricted	<u>46,707,796</u>	<u>9,059,589</u>	<u>55,767,385</u>
Total net position	<u>\$ 129,639,202</u>	<u>\$ 49,165,618</u>	<u>\$ 178,804,820</u>

City of Watford City
Statement of Activities
Year Ended December 31, 2017

	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 7,143,628	\$ 220,675	\$ -	\$ 63,191	\$ (6,859,762)	\$ -	\$ (6,859,762)
Public safety	3,262,416	98,281	30,012	-	(3,134,123)	-	(3,134,123)
Public works	1,921,714	-	-	1,549,357	(372,357)	-	(372,357)
Social and economic services	1,707,908	55,810	-	-	(1,652,098)	-	(1,652,098)
Interest	4,052,925	-	-	-	(4,052,925)	-	(4,052,925)
Total governmental activities	<u>18,088,591</u>	<u>374,766</u>	<u>30,012</u>	<u>1,612,548</u>	<u>(16,071,265)</u>	<u>-</u>	<u>(16,071,265)</u>
Business-type activities							
Water	3,543,674	2,823,370	-	-	-	(720,304)	(720,304)
Sewer	2,816,894	1,264,877	-	-	-	(1,552,017)	(1,552,017)
Garbage	941,782	1,269,348	-	-	-	327,566	327,566
Total business-type activities	<u>7,302,350</u>	<u>5,357,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,944,755)</u>	<u>(1,944,755)</u>
Total primary government	<u>\$ 25,390,941</u>	<u>\$ 5,732,361</u>	<u>\$ 30,012</u>	<u>\$ 1,612,548</u>	<u>(16,071,265)</u>	<u>(1,944,755)</u>	<u>(18,016,020)</u>
General Revenue							
Property taxes levied for general purposes					1,869,409	-	1,869,409
Property taxes levied for special purposes					476,124	-	476,124
City sales tax					3,486,151	-	3,486,151
Oil and gas production tax					14,023,095	-	14,023,095
State aid and revenues not restricted to specific programs					1,051,708	-	1,051,708
Unrestricted interest income					72,487	-	72,487
Gain on sale of land					2,000,000	-	2,000,000
Miscellaneous					273,998	-	273,998
Total general revenues					<u>23,252,972</u>	<u>-</u>	<u>23,252,972</u>
Transfers					(767,951)	767,951	-
Change in net position					<u>6,413,756</u>	<u>(1,176,804)</u>	<u>5,236,952</u>
Net Position - Beginning, as previously reported					121,795,270	51,105,540	172,900,810
Restatement (Note 12)					<u>1,430,176</u>	<u>(763,118)</u>	<u>667,058</u>
Net Position - Beginning, as restated					<u>123,225,446</u>	<u>50,342,422</u>	<u>173,567,868</u>
Net Position - Ending					<u>\$ 129,639,202</u>	<u>\$ 49,165,618</u>	<u>\$ 178,804,820</u>

City of Watford City
Balance Sheet – Governmental Funds
December 31, 2017

	General Fund	Roughrider Sales Tax Fund	City Improvements	City Events Center	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 4,296,079	\$ 2,680,953	\$ 8,978,338	\$ 52,165	\$ 6,668,646	\$ 6,183,773	\$ 7,062,939	\$ 35,922,893
Restricted cash	163,000	-	-	-	-	-	78,264	241,264
Intergovernmental receivable	2,980,519	673,787	-	-	-	-	145,693	3,799,999
Taxes receivable	28,035	-	-	-	-	-	4,855	32,890
Special assessments receivable	-	-	-	-	-	2,538,031	-	2,538,031
Accounts receivable	206,892	-	-	-	-	-	18,459	225,351
Total assets	\$ 7,674,525	\$ 3,354,740	\$ 8,978,338	\$ 52,165	\$ 6,668,646	\$ 8,721,804	\$ 7,310,210	\$ 42,760,428
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 1,494,394	\$ -	\$ -	\$ 33,816	\$ 453,442	\$ -	\$ 730,351	\$ 2,712,003
Retainage payable	-	-	-	-	317,578	-	-	317,578
Total liabilities	1,494,394	-	-	33,816	771,020	-	730,351	3,029,581
Deferred Inflows of Resources								
Unavailable property taxes	28,035	-	-	-	-	-	4,855	32,890
Unavailable special assessments receivable	-	-	-	-	-	2,538,031	-	2,538,031
Total deferred inflows of resources	28,035	-	-	-	-	2,538,031	4,855	2,570,921
Fund Balances								
Restricted	163,000	2,754,740	8,978,338	-	-	-	78,264	11,974,342
Committed	108,815	600,000	-	-	-	-	115,618	824,433
Assigned	-	-	-	18,349	5,897,626	6,183,773	6,381,122	18,480,870
Unassigned	5,880,281	-	-	-	-	-	-	5,880,281
Total fund balances	6,152,096	3,354,740	8,978,338	18,349	5,897,626	6,183,773	6,575,004	37,159,926
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,674,525	\$ 3,354,740	\$ 8,978,338	\$ 52,165	\$ 6,668,646	\$ 8,721,804	\$ 7,310,210	\$ 42,760,428

City of Watford City
 Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position
 December 31, 2017

Total fund balance, governmental funds		\$ 37,159,926
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	\$ 191,145,117	
Less accumulated depreciation	<u>(6,817,745)</u>	
Net capital assets		184,327,372
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		
		2,570,921
Uncertified special assessments are not current financial resources and therefore are not reported in the governmental funds		
		21,204,644
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 funds		
		(1,817,801)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position. Balances at December 31, 2017 are:		
Compensated absences	\$ (138,855)	
Interest payable	(296,697)	
Bonds payable, net of premium	<u>(113,370,308)</u>	
Total long-term liabilities		<u>(113,805,860)</u>
Net Position of Governmental Activities in the Statement of Net Position		<u>\$ 129,639,202</u>

City of Watford City
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2017

	General Fund	Roughrider Sales Tax Fund	City Improvements	City Events Center	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 1,167,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 702,109	\$ 1,869,409
Licenses and permits	196,980	-	-	-	-	-	-	196,980
Special assessments	2,335	-	-	-	-	2,538,031	-	2,540,366
Intergovernmental revenues	14,573,032	3,486,151	209,416	-	1,549,357	-	385,558	20,203,514
Charges for services	23,695	-	-	-	-	-	55,810	79,505
Fines and forfeitures	98,090	-	-	-	191	-	-	98,281
Interest income	72,236	-	-	-	-	-	251	72,487
Other income	224,257	-	-	43,297	3,894	-	2,550	273,998
Total revenues	<u>16,357,925</u>	<u>3,486,151</u>	<u>209,416</u>	<u>43,297</u>	<u>1,553,442</u>	<u>2,538,031</u>	<u>1,146,278</u>	<u>25,334,540</u>
Expenditures								
Current								
General government	4,235,826	-	-	-	2,611	-	1,011,308	5,249,745
Public safety	2,867,849	-	-	-	-	-	145,492	3,013,341
Public works	816	-	-	-	-	-	1,455,308	1,456,124
Social and economic services	149,916	1,461,234	-	11,689	-	-	-	1,622,839
Debt service								
Principal	-	-	-	-	-	6,059,466	-	6,059,466
Interest	-	-	-	-	-	4,335,571	-	4,335,571
Capital outlay	377,357	-	32,678	897,251	7,846,022	-	444,670	9,597,978
Total expenditures	<u>7,631,764</u>	<u>1,461,234</u>	<u>32,678</u>	<u>908,940</u>	<u>7,848,633</u>	<u>10,395,037</u>	<u>3,056,778</u>	<u>31,335,064</u>
Excess (deficiency) of revenues over expenditures	<u>8,726,161</u>	<u>2,024,917</u>	<u>176,738</u>	<u>(865,643)</u>	<u>(6,295,191)</u>	<u>(7,857,006)</u>	<u>(1,910,500)</u>	<u>(6,000,524)</u>
Other Financing Sources (Uses)								
Proceeds on sale of land	-	-	-	-	2,000,000	-	-	2,000,000
Transfers in	-	-	76,667	1,918,999	6,501,034	7,491,899	3,395,131	19,383,730
Transfers out	(11,600,356)	(2,595,131)	(5,064,176)	-	-	-	(106,667)	(19,366,330)
Total other financing sources and uses	<u>(11,600,356)</u>	<u>(2,595,131)</u>	<u>(4,987,509)</u>	<u>1,918,999</u>	<u>8,501,034</u>	<u>7,491,899</u>	<u>3,288,464</u>	<u>2,017,400</u>
Net change in fund balances	<u>(2,874,195)</u>	<u>(570,214)</u>	<u>(4,810,771)</u>	<u>1,053,356</u>	<u>2,205,843</u>	<u>(365,107)</u>	<u>1,377,964</u>	<u>(3,983,124)</u>
Fund Balances - Beginning, as previously reported	<u>9,026,291</u>	<u>3,924,954</u>	<u>13,837,973</u>	<u>(1,035,007)</u>	<u>3,765,369</u>	<u>6,548,880</u>	<u>5,197,040</u>	<u>41,265,500</u>
Restatement (Note 12)	<u>-</u>	<u>-</u>	<u>(48,864)</u>	<u>-</u>	<u>(73,586)</u>	<u>-</u>	<u>-</u>	<u>(122,450)</u>
Fund Balances - Beginning, as restated	<u>9,026,291</u>	<u>3,924,954</u>	<u>13,789,109</u>	<u>(1,035,007)</u>	<u>3,691,783</u>	<u>6,548,880</u>	<u>5,197,040</u>	<u>41,143,050</u>
Fund Balances - Ending	<u>\$ 6,152,096</u>	<u>\$ 3,354,740</u>	<u>\$ 8,978,338</u>	<u>\$ 18,349</u>	<u>\$ 5,897,626</u>	<u>\$ 6,183,773</u>	<u>\$ 6,575,004</u>	<u>\$ 37,159,926</u>

See Notes to Financial Statements

City of Watford City

Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances
with the Government-Wide Statement of Activities
Year Ended December 31, 2017

Net change in fund balances - total governmental funds		\$ (3,983,124)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
<p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year</p>		
Capital asset additions	\$ 9,597,978	
Contributed capital transferred to enterprise funds	(785,351)	
Current year depreciation	<u>(1,970,945)</u>	
		6,841,682
<p style="margin-left: 40px;">The net effect of various sale transactions involving assets is to decrease net position. In the Statement of Activities, only the gain or loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale of assets increase financial resources.</p>		
		(100,747)
<p style="margin-left: 40px;">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</p>		
		(2,064,242)
<p style="margin-left: 40px;">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</p>		
		(596,597)
<p style="margin-left: 40px;">Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds</p>		
Net change in compensated absences		(25,328)
<p style="margin-left: 40px;">Government funds report the effect of bond premiums when debt is first issued, whereas these amounts are amortized in the statement of activities</p>		
		282,646
<p style="margin-left: 40px;">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</p>		
		<u>6,059,466</u>
Change in net position of governmental activities		<u><u>\$ 6,413,756</u></u>

City of Watford City
Statement of Net Position – Proprietary Funds
December 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 5,267,764	\$ 3,468,582	\$ 1,072,396	\$ 9,808,742
Accounts receivable	813,757	202,850	124,579	1,141,186
Total current assets	<u>6,081,521</u>	<u>3,671,432</u>	<u>1,196,975</u>	<u>10,949,928</u>
Noncurrent assets				
Restricted cash	23,650	911,570	-	935,220
Capital assets not being depreciated	203,135	614,615	-	817,750
Capital assets, net of accumulated depreciation	16,461,263	50,257,431	272,984	66,991,678
Total non-current assets	<u>16,688,048</u>	<u>51,783,616</u>	<u>272,984</u>	<u>68,744,648</u>
Total assets	<u>22,769,569</u>	<u>55,455,048</u>	<u>1,469,959</u>	<u>79,694,576</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pension	<u>300,818</u>	<u>187,995</u>	<u>293,152</u>	<u>781,965</u>
Liabilities				
Current liabilities				
Accounts payable	925,315	83,442	25,005	1,033,762
Interest payable	2,433	191,440	-	193,873
Compensated absences	5,000	5,000	5,000	15,000
Revenue bonds	17,000	712,619	-	729,619
Total current liabilities	<u>949,748</u>	<u>992,501</u>	<u>30,005</u>	<u>1,972,254</u>
Non-current liabilities				
Compensated absences	8,060	27,877	28,988	64,925
Revenue bonds	199,000	27,710,000	-	27,909,000
Net pension liability	510,995	319,344	497,973	1,328,312
Total non-current liabilities	<u>718,055</u>	<u>28,057,221</u>	<u>526,961</u>	<u>29,302,237</u>
Total liabilities	<u>1,667,803</u>	<u>29,049,722</u>	<u>556,966</u>	<u>31,274,491</u>

City of Watford City
Statement of Net Position – Proprietary Funds
December 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pension	14,015	8,759	13,658	36,432
Net Position				
Net investment in capital accounts	16,448,398	22,449,427	272,984	39,170,809
Restricted for debt service	23,650	911,570	-	935,220
Unrestricted	4,916,521	3,223,565	919,503	9,059,589
Total net position	<u>\$ 21,388,569</u>	<u>\$ 26,584,562</u>	<u>\$ 1,192,487</u>	<u>\$ 49,165,618</u>

City of Watford City
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended December 31, 2017

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Revenues				
Charges for services	\$ 2,823,370	\$ 1,264,877	\$ 1,269,348	\$ 5,357,595
Total operating revenues	<u>2,823,370</u>	<u>1,264,877</u>	<u>1,269,348</u>	<u>5,357,595</u>
Expenditures				
Cost of services	2,785,402	449,829	791,411	4,026,642
Contractual and professional services	879	1,225	-	2,104
Materials and maintenance	60,854	37,130	20,110	118,094
Utilities	25,422	139,611	8,751	173,784
Supplies	108,203	65,604	61,059	234,866
Administration	7,759	32,909	-	40,668
Depreciation	548,195	1,378,363	60,451	1,987,009
Total operating expenses	<u>3,536,714</u>	<u>2,104,671</u>	<u>941,782</u>	<u>6,583,167</u>
Operating income (loss)	<u>(713,344)</u>	<u>(839,794)</u>	<u>327,566</u>	<u>(1,225,572)</u>
Non-operating Revenues (Expenses)				
Interest expense	(6,960)	(712,223)	-	(719,183)
Total non-operating revenue (expenses)	<u>(6,960)</u>	<u>(712,223)</u>	<u>-</u>	<u>(719,183)</u>
Net income (loss) before contributions and transfers	<u>(720,304)</u>	<u>(1,552,017)</u>	<u>327,566</u>	<u>(1,944,755)</u>
Capital contributions	441,054	344,297	-	785,351
Transfers out	(17,400)	-	-	(17,400)
Change in net position	<u>(296,650)</u>	<u>(1,207,720)</u>	<u>327,566</u>	<u>(1,176,804)</u>
Total Net Position - Beginning, as previously reported	<u>21,450,784</u>	<u>28,529,579</u>	<u>1,125,177</u>	<u>51,105,540</u>
Restatement (Note 12)	<u>234,435</u>	<u>(737,297)</u>	<u>(260,256)</u>	<u>(763,118)</u>
Total Net Position - Beginning, as restated	<u>21,685,219</u>	<u>27,792,282</u>	<u>864,921</u>	<u>50,342,422</u>
Total Net Position - Ending	<u>\$ 21,388,569</u>	<u>\$ 26,584,562</u>	<u>\$ 1,192,487</u>	<u>\$ 49,165,618</u>

City of Watford City
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2017

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,228,048	\$ 1,404,368	\$ 1,265,949	\$ 4,898,365
Payments to suppliers	(1,759,430)	(371,077)	(432,673)	(2,563,180)
Payments to employees	(415,085)	(246,290)	(371,399)	(1,032,774)
Net Cash Provided by Operating Activities	53,533	787,001	461,877	1,302,411
Cash Flows from Capital and Related Financing Activities				
Proceeds from bond issuance	-	459,415	-	459,415
Payment on debt	(16,000)	(798,523)	-	(814,523)
Interest paid	(6,960)	(712,223)	-	(719,183)
Transfers out	(17,400)	-	-	(17,400)
Capital asset purchases	-	(477,020)	-	(477,020)
Net Cash Used by Capital and Related Financing Activities	(40,360)	(1,528,351)	-	(1,568,711)
Net Change in Cash and Cash Equivalents	13,173	(741,350)	461,877	(266,300)
Cash and Cash Equivalents - Beginning of Year	5,278,241	5,121,502	610,519	11,010,262
Cash and Cash Equivalents - End of Year	<u>\$ 5,291,414</u>	<u>\$ 4,380,152</u>	<u>\$ 1,072,396</u>	<u>\$ 10,743,962</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ (713,344)	\$ (839,794)	\$ 327,566	\$ (1,225,572)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation expense	548,195	1,378,363	60,451	1,987,009
Effects on cash flows due to changes in				
Accounts receivable	(595,322)	139,491	(3,399)	(459,230)
Deferred outflows	(158,162)	(82,725)	(168,861)	(409,748)
Compensated absences liability	(8,658)	20,509	17,418	29,269
Accounts payable	755,519	64,216	(21,806)	797,929
Deferred inflows	(2,666)	(3,551)	(876)	(7,093)
Net pension liability	227,971	110,492	251,384	589,847
Total adjustments	<u>766,877</u>	<u>1,626,795</u>	<u>134,311</u>	<u>2,527,983</u>
Net Cash Provided by Operating Activities	\$ 53,533	\$ 787,001	\$ 461,877	\$ 1,302,411
Noncash Capital Activities				
Contribution of capital assets from capital project funds	<u>\$ 441,054</u>	<u>\$ 344,297</u>	<u>\$ -</u>	<u>\$ 785,351</u>

City of Watford City
Statement of Assets and Liabilities – Fiduciary Funds
December 31, 2017

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 38,405</u>
Total assets	<u><u>\$ 38,405</u></u>
Liabilities	
Due to others	<u>\$ 38,405</u>
Total liabilities	<u><u>\$ 38,405</u></u>

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 2017.

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. No funds were expended by the City in relation to the correctional facility in 2017. 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, proprietary, and fiduciary 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.

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 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.

City Improvements Fund – This capital projects fund accounts for the financial resources and activity of all projects being undertaken to improve the buildings, facilities, etc. of the City.

City Events Center Fund - This capital projects fund accounts for the financial resources and activity of the new city event center project currently taking place in 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.

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.

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.

Additionally, the City reports the following fund types:

Agency Funds – These funds account for assets by the City in a custodial capacity as an agent on behalf of others.

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.

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.

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, 2017, 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 government-wide 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

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, 2017.

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 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.

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 North Dakota Public Employee 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 (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.

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

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, 2017, the City of Watford City provided tax abatements in the form of property tax exemptions for properties used as affordable housing.

The affordable housing property tax exemption, NDCC Ch.57-02-08.43, 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].

The amount of taxes abated for the year ending December 31, 2017 was as follows:

Tax Abatement Program	Amount
Affordable Housing	\$ 2,331,227

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 - 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, 2017, the City's carrying amount of deposits was \$46,908,119, the agency fund's carrying amount of deposits was \$38,405, and the bank balance was \$46,992,661. Of the bank balances \$500,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Note 3 - Legal Compliance

Expenditures over Appropriations

At December 31, 2017, the following funds had expenditures that exceeded budgeted appropriations:

General fund	\$ (1,103,958)
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All funds with expenditures exceeding appropriations will be covered by excess revenues. No remedial action is anticipated or required.

Note 4 - 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, 2017, all accounts were considered collectible and accordingly no allowance was recorded.

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.

Note 5 - Intergovernmental Receivable

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

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2017 is as follows:

	Balance 1/1/2017 (as restated)	Additions	Transfers	Deletions	Balance 12/31/2017
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 5,214,942	\$ 1,907,791	\$ -	\$ -	\$ 7,122,733
Construction in progress	142,833,877	4,482,344	(141,263,186)	-	6,053,035
Total capital assets not being depreciated	148,048,819	6,390,135	(141,263,186)	-	13,175,768
Capital assets being depreciated					
Buildings and infrastructure	6,789,152	1,197,193	102,733,168	-	110,719,513
Machinery and equipment	4,653,365	612,901	49,696	(115,401)	5,200,561
Improvements other than buildings	22,956,555	612,398	38,480,322	-	62,049,275
Total capital assets being depreciated	34,399,072	2,422,492	141,263,186	(115,401)	177,969,349
Less accumulated depreciation					
Buildings and infrastructure	883,170	179,997	-	-	1,063,167
Machinery and equipment	1,707,910	417,632	-	(14,654)	2,110,888
Improvements other than buildings	2,270,374	1,373,316	-	-	3,643,690
Total accumulated depreciation	4,861,454	1,970,945	-	(14,654)	6,817,745
Total capital assets being depreciated	29,537,618	451,547	141,263,186	(100,747)	171,151,604
Governmental Capital Assets, net	\$ 177,586,437	\$ 6,841,682	\$ -	\$ (100,747)	\$ 184,327,372

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

General government	\$ 1,171,211
Public safety	249,075
Public works	465,590
Social and economic services	<u>85,069</u>
 Total depreciation expense	 <u><u>\$ 1,970,945</u></u>

	Balance 1/1/2017 (as restated)	Additions	Transfers	Deletions	Balance 12/31/2017
Business-type activities					
Capital assets not being depreciated					
Land	\$ 25,143	\$ -	\$ -	\$ -	\$ 25,143
Construction in progress	<u>14,211,062</u>	<u>748,190</u>	<u>(14,166,645)</u>	<u>-</u>	<u>792,607</u>
Total capital assets not being depreciated	<u>14,236,205</u>	<u>748,190</u>	<u>(14,166,645)</u>	<u>-</u>	<u>817,750</u>
Capital assets being depreciated					
Buildings and infrastructure	54,041,489	514,181	14,166,645	-	68,722,315
Machinery and equipment	993,126	-	-	-	993,126
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>57,837,774</u>	<u>514,181</u>	<u>14,166,645</u>	<u>-</u>	<u>72,518,600</u>
Less accumulated depreciation					
Buildings and infrastructure	2,794,746	1,792,628	-	-	4,587,374
Machinery and equipment	288,491	87,934	-	-	376,425
Improvements other than buildings	<u>456,676</u>	<u>106,447</u>	<u>-</u>	<u>-</u>	<u>563,123</u>
Total accumulated depreciation	<u>3,539,913</u>	<u>1,987,009</u>	<u>-</u>	<u>-</u>	<u>5,526,922</u>
Total capital assets being depreciated, net	<u>54,297,861</u>	<u>(1,472,828)</u>	<u>14,166,645</u>	<u>-</u>	<u>66,991,678</u>
Business-type activities - capital assets, net	<u><u>\$ 68,534,066</u></u>	<u><u>\$ (724,638)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 67,809,428</u></u>

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

Business-type Activities

Water fund	\$ 548,195
Sewer fund	1,378,363
Garbage fund	50,570
Surcharge fund	<u>9,881</u>
	<u><u>\$ 1,987,009</u></u>

Note 7 - Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2017:

Governmental Activities

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Compensated absences	\$ 113,527	\$ 118,291	\$ 92,963	\$ 138,855	\$ 75,000
General Obligation Bonds	575,000	-	45,000	530,000	45,000
Certificates of Indebtedness	53,581,221	-	4,529,466	49,051,755	4,723,012
Revenue Bonds	36,300,000	-	700,000	35,600,000	720,000
Plus unamortized premium	3,384,040	-	120,859	3,263,181	120,859
Refunding Improvement Bonds	22,960,000	-	785,000	22,175,000	815,000
Plus unamortized premium	2,912,159	-	161,787	2,750,372	161,787
Total	<u>\$ 119,825,947</u>	<u>\$ 118,291</u>	<u>\$ 6,435,075</u>	<u>\$ 113,509,163</u>	<u>\$ 6,660,658</u>

Business-type Activities

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Compensated absences	\$ 50,656	\$ 68,090	\$ 38,821	\$ 79,925	\$ 15,000
Revenue Bonds	28,993,727	459,415	814,523	28,638,619	729,619
Total	<u>\$ 29,044,383</u>	<u>\$ 527,505</u>	<u>\$ 853,344</u>	<u>\$ 28,718,544</u>	<u>\$ 744,619</u>

Outstanding debt at December 31, 2017 (excluding compensated absences) consisted of the following issues.

Governmental Activities

General Obligation Bonds

\$710,000 General Obligation Highway Refunding Bonds, Series 2013; due in annual installments of \$52,160 to \$57,308 through May 1, 2028; interest at .6% to 2.70% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund

\$ 530,000

Certificates of Indebtedness

\$15,000,000 Certificate of Indebtedness, Series 2015A; due in monthly installments of \$73,906 through December 31, 2026; interest at 3.65% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	\$ 13,618,795
\$30,000,000 Certificate of Indebtedness, Series 2015B; due in monthly installments of \$137,806 through December 31, 2026; interest at 1.85% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	27,255,061
\$3,000,000 Certificate of Indebtedness, Series 2015C; due in monthly installments of \$14,949 through December 31, 2026; interest at 3.65% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	2,736,346
\$6,000,000 Certificate of Indebtedness, Series 2015D; due in monthly installments of \$27,429 through December 31, 2026; interest at 1.85% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	<u>5,441,553</u>
Total Certificates of Indebtedness	<u><u>\$ 49,051,755</u></u>

Revenue Bonds

\$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	\$ 1,235,000
\$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	<u>34,365,000</u>
Total Revenue Bonds	<u><u>\$ 35,600,000</u></u>

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 \$1,416,085. Principal payments of \$100,000 and interest payments of \$28,170 were made in the current year. The oil and gas tax and public domain revenues in the current year were \$14,023,095 and \$209,414, 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 bonds are payable through 2045. The total principal and interest remaining to be paid on the bonds is \$63,569,900. Principal payments of \$600,000 and interest payments of \$1,673,000 were made in the current year. The sales tax revenues in the current year were \$3,486,151.

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	<u>\$ 22,175,000</u>
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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	\$ 216,000
\$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	490,000
\$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	17,845,000
\$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	<u>10,087,619</u>
	<u>\$ 28,638,619</u>

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 \$250,004. Principal payments of \$16,000 and interest payments of \$5,800 were made in the current year. The water fund net revenues in the current year were (\$165,149).

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 \$566,752. Principal payments of \$40,000 and interest payments of \$13,250 were made in the current year. The sewer fund net revenues in the current year were \$538,569.

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 can issue up to \$33,000,000 in bonds, but only \$27,932,619 was advanced and outstanding at December 31, 2017. Principal payments of \$758,523 and interest payments of \$557,058 were made in the current year. The oil and gas production taxes revenue in the current year was \$14,023,095 and the sewer fund net revenues in the current year were \$538,569.

The annual maturity of long-term debt of the City, except compensated absences payable, as of December 31, 2017 is as follows:

Year Ended December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 6,303,012	\$ 4,623,987	\$ 10,926,999	\$ 729,619	\$ 573,322	\$ 1,302,941
2019	6,552,457	4,381,766	10,934,223	737,000	560,786	1,297,786
2020	6,794,175	4,141,724	10,935,899	748,000	546,623	1,294,623
2021	7,043,474	3,895,349	10,938,823	753,000	530,437	1,283,437
2022	7,305,680	3,626,319	10,931,999	764,000	515,051	1,279,051
2023-2027	34,024,022	13,510,783	47,534,805	3,945,000	2,337,138	6,282,138
2028-2032	12,490,000	8,333,681	20,823,681	3,867,000	1,934,799	5,801,799
2033-2037	11,900,000	5,014,250	16,914,250	4,010,000	1,544,191	5,554,191
2038-2042	8,645,000	2,705,125	11,350,125	4,250,000	1,132,983	5,382,983
2043-2046	6,298,935	484,875	6,783,810	8,835,000	538,685	9,373,685
	<u>\$ 107,356,755</u>	<u>\$ 50,717,859</u>	<u>\$ 158,074,614</u>	<u>\$ 28,638,619</u>	<u>\$ 10,214,015</u>	<u>\$ 38,852,634</u>

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, 2017. 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 8 - 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, 2017:

Fund	Transfer In	Transfer Out
Governmental funds		
General fund	\$ -	\$ 11,600,356
Roughrider Sales Tax fund	-	2,595,131
City Improvements fund	76,667	5,064,176
City Events Center fund	1,918,999	-
Capital Projects fund	6,501,034	-
Debt Service fund	7,491,899	-
Nonmajor Governmental funds	3,395,131	106,667
Water fund	-	17,400
	<u>\$ 19,383,730</u>	<u>\$ 19,383,730</u>
Total transfers	<u>\$ 19,383,730</u>	<u>\$ 19,383,730</u>

The transfers in and out during 2017 were budgeted transfers.

Note 9 - Fund Balance

At December 31, 2017, the governmental fund balance classifications are as follows:

	General Fund	Roughrider Sales Tax Fund	City Improvements	City Events Center	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Restricted for								
City improvements	\$ -	\$ -	\$ 8,978,338	\$ -	\$ -	\$ -	\$ -	\$ 8,978,338
Debt service	163,000	2,754,740	-	-	-	-	-	2,917,740
Road projects	-	-	-	-	-	-	78,264	78,264
Committed for								
Capital projects	108,815	600,000	-	-	-	-	-	708,815
Economic development	-	-	-	-	-	-	115,618	115,618
Assigned for								
General government	-	-	-	-	-	-	466,105	466,105
Public safety	-	-	-	-	-	-	1,621,399	1,621,399
Economic development	-	-	-	-	-	-	3,484,392	3,484,392
Road projects	-	-	-	-	-	-	809,226	809,226
Capital projects	-	-	-	18,349	5,897,626	-	-	5,915,975
Debt service	-	-	-	-	-	6,183,773	-	6,183,773
Unassigned	5,880,281	-	-	-	-	-	-	5,880,281
	<u>\$ 6,152,096</u>	<u>\$ 3,354,740</u>	<u>\$ 8,978,338</u>	<u>\$ 18,349</u>	<u>\$ 5,897,626</u>	<u>\$ 6,183,773</u>	<u>\$ 6,575,004</u>	<u>\$37,159,926</u>

Note 10 - Pension Plan

The City of Watford City participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. PERS is an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. 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. PERS 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 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

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

For the year ended December 31, 2017, the City of Watford City contributed \$370,176.

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

At December 31, 2017, the City of Watford City reported a liability of \$5,471,585 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Watford City's proportion of the net pension liability was based on the City of Watford City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2017, City of Watford City's proportion was 0.340415 percent, which was an increase of 0.03883 from its proportion measured as of July 1, 2016.

For the year ended December 31, 2017, the City of Watford City recognized pension expense of \$1,011,774. At December 31, 2017, the City of Watford City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 32,523	\$ 26,659
Change in assumptions	2,243,720	123,410
Net differences between projected and actual earnings on pension plan investments	73,588	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	688,624	-
Employer contributions subsequent to the measurement date	182,619	-
Total	<u>\$ 3,221,074</u>	<u>\$ 150,069</u>

\$182,619 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, 2018.

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:

2018		\$ 660,547
2019		761,519
2020		683,845
2021		528,929
2022		253,546
		<u>\$ 2,888,386</u>

Actuarial Assumptions

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

Inflation	3.50%		
Salary increases	Service at Beginning of Year:		Increase Rate:
		0	15.00%
		1	10.00%
		2	8.00%
	Age*		
		Under 36	8.00%
		36 - 40	7.50%
		41 - 49	6.00%
		50+	5.00%
	* Age-based salary increase rates apply for employees with three or more years of service		
Investment rate of return	7.75%, net of investment expenses		
Cost-of-living adjustments	None		

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2017. This includes changed to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net 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:

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

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

Sensitivity of the 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 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	\$ 7,427,846	\$ 5,471,585	\$ 3,844,060

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. This report may be obtained by writing to: North Dakota Public Employees Retirement System; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.

Note 11 - Risk Management

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

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

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$250,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$750,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City participates in the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

Note 12 - Correction of Error

Certain errors resulting in misstatements of amounts previously reported for accounts payable, expenditures, accumulated depreciation, depreciation expense, capital contributions, construction in progress and machinery and equipment as of December 31, 2016, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of January 1, 2017 to correct the errors.

The effects of the restatements are as follows:

	City Improvements Fund	Capital Projects Fund	Total Governmental Funds	Governmental Activities
Fund Balance/Net Position - January 1, as previously reported	\$ 13,837,973	\$ 3,765,369	\$ 41,265,500	\$ 121,795,270
Restatements				
Understatement of accounts payable/expenditures	(48,864)	(128,586)	(177,450)	(177,450)
Overstatement of expenditures	-	55,000	55,000	55,000
Understatement of accumulated depreciation/depreciation expense	-	-	-	(131,991)
Understatement of construction in progress, machinery and equipment	-	-	-	1,684,617
Net Position - January 1, as restated	<u>\$ 13,789,109</u>	<u>\$ 3,691,783</u>	<u>\$ 41,143,050</u>	<u>\$ 123,225,446</u>

	Water Fund	Sewer Fund	Nonmajor Enterprise Funds	Total Enterprise Funds	Business-Type Activities
Net Position - January 1, as previously reported	\$ 21,450,784	\$ 28,529,579	\$ 1,125,177	\$ 51,105,540	\$ 51,105,540
Restatements					
Understatement of accumulated depreciation/depreciation expense	(333,447)	(737,297)	-	(1,070,744)	(1,070,744)
Understatement of buildings and infrastructure/ understatement of capital contributions	567,882	-	-	567,882	567,882
Overstatement of machinery and equipment/ overstatement of capital contributions	-	-	(260,256)	(260,256)	(260,256)
Net Position - January 1, as restated	<u>\$ 21,685,219</u>	<u>\$ 27,792,282</u>	<u>\$ 864,921</u>	<u>\$ 50,342,422</u>	<u>\$ 50,342,422</u>

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. As of December 31, 2017, there was one series of bonds outstanding with \$1,875,571 available to be drawn on the bonds. As of December 31, 2017, \$6,524,429 of principal was outstanding.



Required Supplementary Information
December 31, 2017

City of Watford City

City of Watford City
 Schedule of the Employer's Proportionate Share of Net Pension Liability
 Year Ended December 31, 2017

North Dakota Public Employee Retirement System Pension Plan
 Last 10 Fiscal Years*

**Schedule of Employer's Share of Net Pension Liability
 Last 10 Fiscal Years***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
NDPERS	7/1/2015	<u>0.243845%</u>	<u>\$ 1,658,103</u>	<u>\$ 2,172,361</u>	<u>76.33%</u>	<u>77.70%</u>
NDPERS	7/1/2016	<u>0.301585%</u>	<u>\$ 2,939,240</u>	<u>\$ 3,039,267</u>	<u>96.71%</u>	<u>71.10%</u>
NDPERS	7/1/2017	<u>0.340415%</u>	<u>\$ 5,471,585</u>	<u>\$ 3,475,104</u>	<u>157.45%</u>	<u>62.70%</u>

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

North Dakota Public Employee Retirement System Pension Plan
 Last 10 Fiscal Years*

**Schedule of Employer's Contributions
 Last 10 Fiscal Years***

Pension Plan	Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
NDPERS	12/31/2015	\$ 301,756	\$ 301,756	\$ -	\$ 2,785,187	10.83%
NDPERS	12/31/2016	\$ 350,012	\$ 350,012	\$ -	\$ 3,231,792	10.83%
NDPERS	12/31/2017	\$ 370,162	\$ 370,162	\$ -	\$ 3,417,942	10.83%

Notes to Schedule of the Employer's Proportionate Share of Net Pension Liability and Schedule of the Employer's Contributions

Changes of assumptions

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

City of Watford City
Statement of Revenues, Expenditures and Changes in Fund Balances – Comparison of Budget and Actual
General Fund
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 882,495	\$ 882,495	\$ 1,167,300	\$ 284,805
Licenses and permits	346,300	346,300	196,980	(149,320)
Special assessments	-	-	2,335	2,335
Intergovernmental revenues	10,567,200	10,567,200	14,573,032	4,005,832
Charges for services	18,000	18,000	23,695	5,695
Fines and forfeitures	50,000	50,000	98,090	48,090
Interest income	30,000	30,000	72,236	42,236
Other income	498,500	498,500	224,257	(274,243)
Total revenues	<u>12,392,495</u>	<u>12,392,495</u>	<u>16,357,925</u>	<u>3,965,430</u>
Expenditures				
Current				
General government	2,796,068	2,790,068	4,235,826	(1,445,758)
Public safety	2,866,738	2,866,738	2,867,849	(1,111)
Public works	-	-	816	(816)
Social and economic services	141,000	141,000	149,916	(8,916)
Capital outlay	730,000	730,000	377,357	352,643
Total expenditures	<u>6,533,806</u>	<u>6,527,806</u>	<u>7,631,764</u>	<u>(1,103,958)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>5,858,689</u>	<u>5,864,689</u>	<u>8,726,161</u>	<u>2,861,472</u>
Other Financing Sources (Uses)				
Transfers out	<u>(8,420,121)</u>	<u>(8,420,121)</u>	<u>(11,600,356)</u>	<u>(3,180,235)</u>
Total other financing sources and uses	<u>(8,420,121)</u>	<u>(8,420,121)</u>	<u>(11,600,356)</u>	<u>(3,180,235)</u>
Net change in fund balances	<u>\$ (2,561,432)</u>	<u>\$ (2,555,432)</u>	<u>(2,874,195)</u>	<u>\$ (318,763)</u>
Fund Balance - Beginning			<u>9,026,291</u>	
Fund Balance - Ending			<u>\$ 6,152,096</u>	

City of Watford City
Statement of Revenues, Expenditures and Changes in Fund Balances – Comparison of Budget and Actual
Roughrider Sales Tax Fund
Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental revenues	\$ 3,000,000	\$ 3,000,000	\$ 3,486,151	\$ 486,151
Expenditures				
Current				
Social and economic services	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,461,234</u>	<u>38,766</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,500,000</u>	<u>1,500,000</u>	<u>2,024,917</u>	<u>447,385</u>
Other Financing Sources (Uses)				
Transfers out	<u>(1,100,000)</u>	<u>(1,100,000)</u>	<u>(2,595,131)</u>	<u>(1,495,131)</u>
Net change in fund balances	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>(570,214)</u>	<u>\$ (1,047,746)</u>
Fund Balance - Beginning			<u>3,924,954</u>	
Fund Balance - Ending			<u>\$ 3,354,740</u>	

Note 1 – 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:

- 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.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

City Council
City of Watford City
Watford City, North Dakota

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 the City of Watford City as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Watford City’s basic financial statements, and have issued our report thereon dated October 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Watford City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 preceding paragraph 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 scheduling of findings and responses as items 2017-001, 2017-002, and 2017-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 is described in the accompanying schedule of findings as item 2017-004.

City of Watford City's Responses to Findings

The City of Watford City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The 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.

The image shows a handwritten signature in black ink that reads "Eide Sallee LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
October 30, 2019

2017-001 Recording of Transactions

Material Weakness in Internal Control over Financial Reporting

Criteria - A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Condition – We identified misstatements in the City’s financial statements, including restatements to beginning balances, causing us to propose material audit adjustments.

Cause – Misstatements to the financial statements could result from inadequate controls over recording of transactions.

Effect - Inadequate internal controls over recording of transactions affects the City’s ability to detect material misstatements to the financial statements.

Recommendation – We recommend that all general ledger accounts be reconciled in a timely manner.

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

2017-002 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.

2017-003 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

2017-004 Failure to Provide Continuing Disclosure

Criteria – The City’s General Obligation Highway Refunding Bonds of 2013 and Oil and Gas Tax Revenue Bonds of 2013 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, 2017 for the year ended December 31, 2016.

Cause – The City was aware of the continuing disclosure requirements but the audit report for the year ended December 31, 2016 was not finalized until March 2018.

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.