

CITY OF WATFORD CITY

**FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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CITY OF WATFORD CITY

**CITY OFFICIALS
DECEMBER 31, 2018**

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

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



**SCHMITZ-
HOLMSTROM**
CERTIFIED PUBLIC ACCOUNTANTS

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Bismarck, ND 58503
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P.O. Box 385
Hazen, ND 58545
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Independent Auditor's Report

City Council
City of Watford City

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watford City, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Watford City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Watford City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watford City, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Prior Period Adjustment: As discussed in Note 2 to the financial statements, the omission of OPEB liabilities was discovered during the current year. Accordingly, adjustments have been made to beginning net position as of January 1, 2018 to correct the error. Our opinions are not modified with respect to this matter.

Revised Financial Statements: As discussed in Note 1, the financial statements previously issued on June 1, 2020 contained a clerical error in the Statement of Activities. As described in Note 1, the City has corrected this error to correct the general revenue balance. Our opinion is not modified in relation to this revision.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of the employer's proportionate share of net OPEB liability and employer contributions, schedule of the employer's proportionate share of net pension liability and employer contributions, statement of revenues, expenditures, and changes in fund balances – comparison of budget to actual general fund, statement of revenues, expenditures, and changes in fund balances – comparison of budget to actual Roughrider Sales Tax Fund, and notes to the required supplementary information on pages 45 – 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watford City, 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 June 1, 2020 on our consideration of City of Watford City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Watford City's internal control over financial reporting and compliance.

Schnitz-Helmstrom, LLP

Bismarck, North Dakota

June 1, 2020, except for Note 1 as to which the date is July 23, 2020

CITY OF WATFORD CITY
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 44,181,755	\$ 9,393,118	\$ 53,574,873
Intergovernmental receivable	3,743,662	-	3,743,662
Taxes receivable	61,414	-	61,414
Special assessments receivable	21,860,897	-	21,860,897
Accounts receivable	138,697	1,138,151	1,276,848
Restricted cash	241,265	807,720	1,048,985
Capital assets			
Nondepreciable	14,147,073	817,750	14,964,823
Depreciable, net	164,776,064	64,454,562	229,230,626
 Total assets	 <u>249,150,827</u>	 <u>76,611,301</u>	 <u>325,762,128</u>
DEFERRED OUTFLOWS OF RESOURCES			
OPEB	24,119	7,416	31,535
Pensions	2,025,484	622,831	2,648,315
 Total deferred outflows of resources	 <u>2,049,603</u>	 <u>630,247</u>	 <u>2,679,850</u>
LIABILITIES			
Accounts payable	1,314,581	845,574	2,160,155
Retainage payable	84,453	-	84,453
Interest payable	225,852	188,600	414,452
Noncurrent liabilities			
Due within one year			
Compensated absences	75,000	15,000	90,000
General obligation bonds	45,000	-	45,000
Certificates of indebtedness	5,077,116	-	5,077,116
Revenue bonds, net of premium	870,859	762,000	1,632,859
Refunding improvement bonds, net of premium	1,016,787	-	1,016,787

See Notes to the Financial Statements

CITY OF WATFORD CITY
STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2018

Due in more than one year			
Compensated absences	63,855	64,925	128,780
General obligation bonds	440,000	-	440,000
Certificates of indebtedness	39,711,335	-	39,711,335
Revenue bonds, net of premium	37,151,463	27,132,000	64,283,463
Refunding improvement bonds, net of premium	22,931,798	-	22,931,798
Net OPEB liability	194,147	59,700	253,847
Net pension liability	4,431,122	1,362,558	5,793,680
	<u>113,633,368</u>	<u>30,430,357</u>	<u>144,063,725</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB	9,520	2,928	12,448
Pensions	235,559	72,434	307,993
	<u>245,079</u>	<u>75,362</u>	<u>320,441</u>
NET POSITION			
Net investment in capital assets	71,678,780	37,378,312	109,057,092
Restricted for debt service	163,000	807,720	970,720
Restricted for city improvements	8,304,719	-	8,304,719
Restricted for road projects	78,264	-	78,264
Unrestricted	57,097,220	8,549,797	65,647,017
	<u>\$ 137,321,983</u>	<u>\$ 46,735,829</u>	<u>\$ 184,057,812</u>

See Notes to the Financial Statements

CITY OF WATFORD CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	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
Primary government							
Governmental activities	\$ 10,132,406	\$ 299,463	\$ -	\$ -	\$ (9,832,943)	\$ -	\$ (9,832,943)
Public safety	5,528,843	186,962	75,860	-	(5,266,021)	-	(5,266,021)
Public works	1,077,926	-	-	1,206,921	128,995	-	128,995
Social and economic services	1,341,025	30,075	-	-	(1,310,950)	-	(1,310,950)
Interest	4,584,249	-	-	-	(4,584,249)	-	(4,584,249)
Total governmental activities	22,664,449	516,500	75,860	1,206,921	(20,865,168)	-	(20,865,168)
Business-type activities							
Water	3,363,284	2,772,707	-	-	-	(590,577)	(590,577)
Sewer	3,490,723	1,287,374	-	-	-	(2,203,349)	(2,203,349)
Garbage	1,047,802	1,353,768	-	-	-	305,966	305,966
Total business-type activities	7,901,809	5,413,849	-	-	-	(2,487,960)	(2,487,960)
Total primary government	\$ 30,566,258	\$ 5,930,349	\$ 75,860	\$ 1,206,921	(20,865,168)	(2,487,960)	(23,353,128)
General revenue							
Property taxes					1,924,728	-	1,924,728
City sales tax					4,687,476	-	4,687,476
Oil and gas production tax					20,669,007	-	20,669,007
State aid and revenues not restricted to specific programs					202,026	-	202,026
Unrestricted interest income					75,491	-	75,491
Gain on sale of capital assets					712,827	-	712,827
Miscellaneous					213,840	-	213,840
Total general revenues					28,485,395	-	28,485,395
Change in net position					7,620,227	(2,487,960)	5,132,267
Net position, beginning of year, as originally stated					129,639,202	49,165,618	178,804,820
Restatement					62,554	58,171	120,725
Net position, beginning of year, as restated					129,701,756	49,223,789	178,925,545
Net position, end of year					\$ 137,321,983	\$ 46,735,829	\$ 184,057,812

See Notes to the Financial Statements

CITY OF WATFORD CITY
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 15,871,118	\$ 2,615,268	\$ 8,610,333	\$ 9,207,588	\$ 7,874,589	\$ 44,178,896
Restricted cash	163,000	-	-	-	78,264	241,264
Accounts receivable	145,479	-	-	-	-	145,479
Intergovernmental receivable	2,794,399	760,411	-	-	188,852	3,743,662
Taxes receivable	9,407	-	-	-	4,855	14,262
Special assessments receivable	-	-	-	3,121,221	-	3,121,221
Total assets	18,983,403	3,375,679	8,610,333	12,328,809	8,146,560	51,444,784
DEFERRED OUTFLOWS OF RESOURCES						
	-	-	-	-	-	-
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts payable	1,401,778	-	324,985	(424,124)	11,942	1,314,581
Retainage payable	37,029	-	47,424	-	-	84,453
Total liabilities	1,438,807	-	372,409	(424,124)	11,942	1,399,034
DEFERRED INFLOWS OF RESOURCES						
Unavailable property taxes	28,035	-	-	-	4,854	32,889
Unavailable special assessments receivable	-	-	-	3,250,245	-	3,250,245
Total deferred inflows of resources	28,035	-	-	3,250,245	4,854	3,283,134
FUND BALANCES						
Restricted	163,000	3,275,679	8,237,924	9,502,688	5,107,304	26,286,595
Committed	211,794	100,000	-	-	37,763	349,557
Assigned	-	-	-	-	2,984,697	2,984,697
Unassigned	17,141,767	-	-	-	-	17,141,767
Total fund balances	17,516,561	3,375,679	8,237,924	9,502,688	8,129,764	46,762,616
Total liabilities, deferred inflows of resources, and fund balances	\$ 18,983,403	\$ 3,375,679	\$ 8,610,333	\$ 12,328,809	\$ 8,146,560	\$ 51,444,784

See Notes to the Financial Statements

CITY OF WATFORD CITY
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total fund balance, governmental funds \$ 46,762,616

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	191,063,536	
Less accumulated depreciation	<u>(12,140,399)</u>	
Net capital assets		178,923,137

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 3,283,134

Uncertified special assessments are not current financial resources and therefore are not reported in the governmental funds 18,782,906

Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds (2,641,197)

Net OPEB liability and OPEB related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds (179,548)

CITY OF WATFORD CITY

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2018

Noncurrent liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and concurrent, are reported in the Statement of Net Position. Balances at December 31, 2018 are:

Compensated absences	(138,855)	
Interest payable	(225,852)	
Certificates of indebtedness	(44,788,451)	
Bonds payable, net of premium	<u>(62,455,907)</u>	
Total noncurrent liabilities		<u>(107,609,065)</u>

Net position of governmental activities in the Statement of Net Position		<u>\$ 137,321,983</u>
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CITY OF WATFORD CITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 999,181	\$ -	\$ -	\$ -	\$ 878,396	\$ 1,877,577
Licenses and permits	233,161	-	-	-	-	233,161
Special assessments	19,254	-	-	1,759,536	-	1,778,790
Intergovernmental revenues	21,461,341	4,687,476	1,212,689	-	646,523	28,008,029
Charges for services	66,301	-	-	-	-	66,301
Fines and forfeitures	186,962	-	-	-	-	186,962
Interest income	75,240	-	-	-	251	75,491
Other income	79,844	-	-	-	11,776	91,620
Total revenues	23,121,284	4,687,476	1,212,689	1,759,536	1,536,946	32,317,931
Expenditures						
Current						
General government	3,042,660	-	-	-	792,542	3,835,202
Public safety	3,293,222	2,066,111	-	-	169,511	5,528,844
Public works	1,515	-	73,254	-	1,003,158	1,077,927
Social and economic services	1,193,652	-	152,988	-	124,653	1,471,293
Debt service						
Principal	-	-	-	5,843,304	-	5,843,304
Interest	-	-	-	4,584,249	-	4,584,249
Capital outlay	224,487	-	1,195,694	-	322,032	1,742,213
Total expenditures	7,755,536	2,066,111	1,421,936	10,427,553	2,411,896	24,083,032
Excess (deficiency) of revenues over expenditures	15,365,748	2,621,365	(209,247)	(8,668,017)	(874,950)	8,234,899
Other Financing Sources (Uses)						
Proceeds on sale of assets	1,367,786	-	-	-	-	1,367,786
Transfers in	10,669,431	1,100,000	3,945,713	12,087,788	4,370,842	32,173,774
Transfers out	(16,038,500)	(3,700,426)	(1,414,522)	(100,855)	(10,919,471)	(32,173,774)
Total other financing sources (uses)	(4,001,283)	(2,600,426)	2,531,191	11,986,933	(6,548,629)	1,367,786
Net change in fund balance	11,364,465	20,939	2,321,944	3,318,916	(7,423,579)	9,602,685
Fund balance, beginning of year	6,152,096	3,354,740	5,915,980	6,183,772	15,553,343	37,159,931
Fund balance, end of year	\$ 17,516,561	\$ 3,375,679	\$ 8,237,924	\$ 9,502,688	\$ 8,129,764	\$ 46,762,616

See Notes to the Financial Statements

CITY OF WATFORD CITY

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances - total governmental funds \$ 9,602,685

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

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

Capital asset additions	2,112,992	
Current year depreciation	(5,430,375)	
Current year disposals	<u>(2,086,857)</u>	
		(5,404,240)

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.

654,959

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.

(2,356,182)

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.

(823,396)

CITY OF WATFORD CITY

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Changes to net OPEB liability and OPEB related deferred outflows and inflows do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(179,548)
Governmental funds report the effect of bond premiums when debt is first issued, whereas these amounts are amortized in the Statement of Activities.	282,645
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>5,843,304</u>
	<u>\$ 7,620,227</u>

CITY OF WATFORD CITY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,226,885	\$ 2,664,444	\$ 1,501,789	\$ 9,393,118
Accounts receivable	818,779	189,366	130,006	1,138,151
Total current assets	<u>6,045,664</u>	<u>2,853,810</u>	<u>1,631,795</u>	<u>10,531,269</u>
NONCURRENT ASSETS				
Restricted cash	23,650	784,070	-	807,720
Capital assets				
Nondepreciable	203,135	614,615	-	817,750
Depreciable, net	<u>15,881,486</u>	<u>48,360,334</u>	<u>212,742</u>	<u>64,454,562</u>
Total non-current assets	<u>16,108,271</u>	<u>49,759,019</u>	<u>212,742</u>	<u>66,080,032</u>
Total assets	<u>22,153,935</u>	<u>52,612,829</u>	<u>1,844,537</u>	<u>76,611,301</u>
DEFERRED OUTFLOWS OF RESOURCES				
OPEB	2,533	2,381	2,502	7,416
Pension	<u>212,713</u>	<u>199,974</u>	<u>210,144</u>	<u>622,831</u>
Total deferred outflows of resources	<u>215,246</u>	<u>202,355</u>	<u>212,646</u>	<u>630,247</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
CURRENT LIABILITIES				
Accounts payable	826,116	19,643	(183)	845,576
Interest payable	1,672	186,928	-	188,600
Compensated absences	5,000	5,000	5,000	15,000
Revenue bonds	<u>17,000</u>	<u>745,000</u>	<u>-</u>	<u>762,000</u>
Total current liabilities	<u>849,788</u>	<u>956,571</u>	<u>4,817</u>	<u>1,811,176</u>

See Notes to the Financial Statements

CITY OF WATFORD CITY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS - CONTINUED
DECEMBER 31, 2018

NONCURRENT LIABILITIES				
Compensated absences	8,060	27,877	28,988	64,925
Revenue bonds	182,000	26,950,000	-	27,132,000
Net OPEB liability	20,389	19,168	20,143	59,700
Net pension liability	<u>465,348</u>	<u>437,481</u>	<u>459,729</u>	<u>1,362,558</u>
 Total noncurrent liabilities	 <u>675,797</u>	 <u>27,434,526</u>	 <u>508,860</u>	 <u>28,619,183</u>
 Total liabilities	 <u>1,525,585</u>	 <u>28,391,097</u>	 <u>513,677</u>	 <u>30,430,359</u>
 DEFERRED INFLOWS OF RESOURCES				
OPEB	1,000	940	988	2,928
Pension	<u>24,738</u>	<u>23,257</u>	<u>24,439</u>	<u>72,434</u>
 Total deferred inflows of resources	 <u>25,738</u>	 <u>24,197</u>	 <u>25,427</u>	 <u>75,362</u>
 NET POSITION				
Net investment in capital assets	15,885,621	21,279,949	212,742	37,378,312
Restricted for debt service	23,650	784,070	-	807,720
Unrestricted	<u>4,908,587</u>	<u>2,335,871</u>	<u>1,305,337</u>	<u>8,549,795</u>
 Total net position	 <u>\$ 20,817,858</u>	 <u>\$ 24,399,890</u>	 <u>\$ 1,518,079</u>	 <u>\$ 46,735,827</u>

See Notes to the Financial Statements

CITY OF WATFORD CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Revenues				
Charges for services	\$ 2,772,707	\$ 1,287,374	\$ 1,353,768	\$ 5,413,849
Expenditures				
Cost of services	2,680,667	637,991	856,454	4,175,112
Contractual and professional services	4,987	4,737	30,874	40,598
Materials and maintenance	37,975	39,714	43,215	120,904
Utilities	21,218	135,313	8,718	165,249
Supplies	19,070	67,958	2,951	89,979
Administration	5,851	14,437	8,828	29,116
Depreciation	590,074	1,902,096	60,243	2,552,413
Total operating expenses	<u>3,359,842</u>	<u>2,802,246</u>	<u>1,011,283</u>	<u>7,173,371</u>
Operating income (loss)	<u>(587,135)</u>	<u>(1,514,872)</u>	<u>342,485</u>	<u>(1,759,522)</u>
Nonoperating revenues (expenses)				
Interest expense	(4,639)	(564,162)	-	(568,801)
Miscellaneous income	2,276	17,241	(36,520)	(17,003)
Service charges and administrative fees	<u>(1,080)</u>	<u>(141,556)</u>	<u>-</u>	<u>(142,636)</u>
Total nonoperating revenues (expenses)	<u>(3,443)</u>	<u>(688,477)</u>	<u>(36,520)</u>	<u>(728,440)</u>
Net income (loss) before transfers	<u>(590,578)</u>	<u>(2,203,349)</u>	<u>305,965</u>	<u>(2,487,962)</u>
Change in net position	<u>(590,578)</u>	<u>(2,203,349)</u>	<u>305,965</u>	<u>(2,487,962)</u>
Total net position, beginning of year, as originally stated	21,388,569	26,584,562	1,192,487	49,165,618
Restatement	<u>19,867</u>	<u>18,677</u>	<u>19,627</u>	<u>58,171</u>
Total net position, beginning of year, as restated	<u>21,408,436</u>	<u>26,603,239</u>	<u>1,212,114</u>	<u>49,223,789</u>
Total net position, end of year	<u>\$ 20,817,858</u>	<u>\$ 24,399,890</u>	<u>\$ 1,518,079</u>	<u>\$ 46,735,827</u>

See Notes to the Financial Statements

CITY OF WATFORD CITY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,870,642	\$ 1,292,093	\$ 1,404,434	\$ 5,567,169
Payments to suppliers	(2,611,592)	(385,134)	(462,259)	(3,458,985)
Payments to employees	(267,232)	(537,304)	(512,782)	(1,317,318)
Net cash provided by operating activities	<u>(8,182)</u>	<u>369,655</u>	<u>429,393</u>	<u>790,866</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments on debt	(17,000)	(727,619)	-	(744,619)
Interest paid	(5,400)	(568,674)	-	(574,074)
Capital asset purchases	(10,297)	(5,000)	-	(15,297)
Net cash used by capital and related financing activities	<u>(32,697)</u>	<u>(1,301,293)</u>	<u>-</u>	<u>(1,333,990)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(40,879)</u>	<u>(931,638)</u>	<u>429,393</u>	<u>(543,124)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,291,414</u>	<u>4,380,152</u>	<u>1,072,396</u>	<u>10,743,962</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,250,535</u>	<u>\$ 3,448,514</u>	<u>\$ 1,501,789</u>	<u>\$ 10,200,838</u>
Reconciliation of cash and cash equivalents				
Cash	\$ 5,226,885	\$ 2,664,444	\$ 1,501,789	\$ 9,393,118
Restricted cash	23,650	784,070	-	807,720
Total cash and cash equivalents	<u>\$ 5,250,535</u>	<u>\$ 3,448,514</u>	<u>\$ 1,501,789</u>	<u>\$ 10,200,838</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (587,135)	\$ (1,514,872)	\$ 342,485	\$ (1,759,522)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	590,074	1,902,096	60,243	2,552,413
Effects on cash flows due to changes in				
Accounts receivable	(5,418)	13,210	(5,680)	2,112
Deferred outflows	85,572	(14,360)	80,506	151,718
Accounts payable	(77,740)	(169,162)	(41,829)	(288,731)
Deferred inflows	11,723	15,438	11,769	38,930
Net pension and OPEB liabilities	(25,258)	137,305	(18,101)	93,946
Net cash provided by operating activities	<u>\$ (8,182)</u>	<u>\$ 369,655</u>	<u>\$ 429,393</u>	<u>\$ 790,866</u>

See Notes to the Financial Statements

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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 2018.

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 2018. 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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

Government-Wide Financial Statements

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

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

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

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

Fund Financial Statements

The fund financial statements provide information about the City's funds including its fiduciary funds. Separate statements for each category-governmental, proprietary and fiduciary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Financial Statement Presentation

The City reports the following major governmental funds:

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

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

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

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

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018, all of the City's investments consisted of certificates of deposit with a local financial institution that meet the criteria of cash and cash equivalents and these investments are presented as cash and cash equivalents.

Capital Assets

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

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

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

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

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

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, 2018.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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 1/6th of unused sick leave benefits are payable upon termination. Amounts are reported as liabilities in the appropriate governmental or business type activity in the government wide statements. Expenditure for unpaid vacation and sick leave benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting and expenses for vacation and sick leave benefits are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

Other Post-Employment Benefits (OPEB)

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

Pensions

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

Deferred Outflows and Inflows of Resources

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

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

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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018, 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].

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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Revised Financial Statements

On July 22, 2020, subsequent to the initial issuance of the City's financial statements, a clerical error was found in the Statement of Activities. This error was due to an account balance being included in state aid and miscellaneous revenues, resulting in an overstatement of net position on the statement. The ending net position on the Statement of Activities now agrees with the ending net position on the Statement of Net Position.

Note 2 – Prior Period Adjustment

A prior period adjustment was necessary to properly state the beginning balance of OPEB liabilities, deferred outflows of resources, and deferred inflows of resources. The result of this adjustment increased net position for governmental activities by \$62,554 and business-type activities by \$58,171.

Note 3 - 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, 2018, the City's carrying amount of deposits was \$54,621,000 and the bank balance was \$56,276,014. Of the bank balances \$43,375,829 was covered by Federal Depository Insurance or coverage substantially the same as that provided by federal deposit insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Note 4 - Legal Compliance

Expenditures over Appropriations

At December 31, 2018, the following funds had expenditures that exceeded budgeted appropriations:

General fund	\$ 672,510
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All funds with expenditures exceeding appropriations will be covered by excess revenues. No remedial action is anticipated or required.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 5 - Accounts Receivable

Accounts receivable are presented net of allowance for uncollectible accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. A receivable is considered past due if any portion of the balance is outstanding after the due date. As of December 31, 2018, 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 6 - Intergovernmental Receivable

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

Note 7 - Capital Assets

Capital asset activity for the year ended December 31, 2018 is as follows:

Governmental Activities	Balance 1/1/18	Additions	Transfers	Reductions	Balance 12/31/18
Capital assets not being depreciated					
Land	\$ 7,122,733	\$ -	\$ -	\$ (488,980)	\$ 6,633,753
Construction in progress	6,053,035	1,506,211	(45,926)	-	7,513,320
Total capital assets not being depreciated	13,175,768	1,506,211	(45,926)	(488,980)	14,147,073
Capital assets being depreciated					
Buildings and infrastructure	110,719,513	-	-	(1,641,175)	109,078,338
Machinery and equipment	5,200,561	606,781	-	(64,418)	5,742,924
Improvements other than buildings	62,049,275	-	45,926	-	62,095,201
Total capital assets being depreciated	177,969,349	606,781	45,926	(1,705,593)	176,916,463
Less accumulated depreciation					
Buildings and infrastructure	1,063,162	2,825,204	-	(107,410)	3,780,956
Machinery and equipment	2,110,888	454,222	-	(306)	2,564,804
Improvements other than buildings	3,643,690	2,150,949	-	-	5,794,639
Total accumulated depreciation	6,817,740	5,430,375	-	(107,716)	12,140,399
Total capital assets being depreciated	171,151,609	(4,823,594)	45,926	(1,597,877)	164,776,064
Governmental capital assets, net	<u>\$ 184,327,377</u>	<u>\$ (3,317,383)</u>	<u>\$ -</u>	<u>\$ (2,086,857)</u>	<u>\$ 178,923,137</u>

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

General government	\$ 4,186,001
Public safety	262,128
Public works	941,188
Social and economic services	41,058
	<u>41,058</u>
 Total depreciation expense	 <u>\$ 5,430,375</u>

Business-Type Activities	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance 12/31/18</u>
Capital assets not being depreciated					
Land	\$ 25,143	\$ -	\$ -	\$ -	\$ 25,143
Construction in progress	792,607	-	-	-	792,607
	<u>817,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>817,750</u>
Capital assets being depreciated					
Buildings and infrastructure	68,722,315	10,298	-	-	68,732,613
Machinery and equipment	993,126	5,000	-	-	998,126
Improvements other than buildings	2,803,159	-	-	-	2,803,159
	<u>72,518,600</u>	<u>15,298</u>	<u>-</u>	<u>-</u>	<u>72,533,898</u>
Less accumulated depreciation					
Buildings and infrastructure	4,587,374	2,363,739	-	-	6,951,113
Machinery and equipment	376,427	88,143	-	-	464,570
Improvements other than buildings	563,123	100,530	-	-	663,653
	<u>5,526,924</u>	<u>2,552,412</u>	<u>-</u>	<u>-</u>	<u>8,079,336</u>
	<u>66,991,676</u>	<u>(2,537,114)</u>	<u>-</u>	<u>-</u>	<u>64,454,562</u>
Business-type capital assets, net	<u>\$ 67,809,426</u>	<u>\$ (2,537,114)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,272,312</u>

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

Water	\$ 590,074
Sewer	1,902,096
Garbage	50,362
Surcharge	9,880
	<u>9,880</u>
 Total depreciation expense	 <u>\$ 2,552,412</u>

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 8 - Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2018:

Governmental Activities	Balance 1/1/18	Additions	Reductions	Balance 12/31/18	Due Within One Year
Compensated absences	\$ 138,855	\$ -	\$ -	\$ 138,855	\$ 75,000
General obligation bonds	530,000	-	45,000	485,000	45,000
Certificates of indebtedness	49,051,755	-	4,263,304	44,788,451	5,077,116
Revenue bonds	35,600,000	-	720,000	34,880,000	750,000
Plus unamortized premiums	3,263,181	-	120,859	3,142,322	120,859
Refunding improvement bonds	22,175,000	-	815,000	21,360,000	855,000
Plus unamortized premiums	2,750,372	-	161,787	2,588,585	161,787
Total	\$ 113,509,163	\$ -	\$ 6,125,950	\$ 107,383,213	\$ 7,084,762
Business-Type Activities	Balance 1/1/18	Additions	Reductions	Balance 12/31/18	Due Within One Year
Compensated absences	\$ 79,925	\$ -	\$ -	\$ 79,925	\$ 15,000
Revenue bonds	28,638,619	-	744,619	27,894,000	762,000
Total	\$ 28,718,544	\$ -	\$ 744,619	\$ 27,973,925	\$ 777,000

Outstanding debt at December 31, 2018 (excluding compensated absences) consisted of the following issues:

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

\$ 485,000

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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	\$ 12,399,558
\$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	24,873,865
\$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	2,516,474
\$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>4,998,554</u>
Total Certificates of Indebtedness	<u><u>\$ 44,788,451</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	\$ 1,135,000
\$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>33,745,000</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 \$1,289,015. Principal payments of \$100,000 and interest

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

payments of \$27,070 were made in the current year. The oil and gas tax and public domain revenues in the current year were \$20,669,007 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 \$61,298,300. Principal payments of \$815,000 and interest payments of \$1,058,238 were made in the current year. The sales tax revenues in the current year were \$4,687,476.

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>\$ 21,360,000</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	\$ 199,000
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\$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	450,000
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\$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	17,395,000
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\$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>9,850,000</u>
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Total business-type activities bonds	<u>\$ 27,894,000</u>
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CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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 \$227,600. Principal payments of \$17,000 and interest payments of \$5,700 were made in the current year. The water fund net revenues in the current year were (\$587,134).

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 \$514,500. Principal payments of \$40,000 and interest payments of \$12,250 were made in the current year. The sewer fund net revenues in the current year were (\$1,514,872).

The City committed available oil and gas production tax revenue, net revenues of the sewer fund, earnings on any funds or accounts created by this debt, and any additional sources necessary to pay the annual principal and interest requirements on the 2015 sewer revenue bonds. Proceeds from the bonds provided financing for improvements to the City's wastewater facilities. The bonds are payable through 2045 and 2046. The City is authorized to issue up to \$33,000,000 in bonds, but only \$27,245,000 was advanced and outstanding at December 31, 2018. Principal payments of \$687,619 and interest payments of \$556,424 were made in the current year. The oil and gas production taxes revenue in the current year was \$20,669,007 and the sewer fund net revenues in the current year were (\$1,514,872).

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
2019	7,009,762	3,703,326	10,713,088	762,000	561,125	1,323,125
2020	6,907,103	3,522,851	10,429,954	783,000	545,600	1,328,600
2021	7,090,544	3,339,762	10,430,306	798,000	529,650	1,327,650
2022	7,282,547	3,137,938	10,420,485	824,000	513,400	1,337,400
2023	7,498,221	2,920,865	10,419,086	845,000	496,600	1,341,600
2024-2028	34,635,036	11,314,513	45,949,549	4,547,000	2,216,325	6,763,325
2029-2033	12,940,000	7,693,963	20,633,963	4,750,000	1,748,300	6,498,300
2034-2038	10,610,000	4,451,500	15,061,500	5,375,000	1,248,800	6,623,800
2039-2043	9,090,000	2,261,750	11,351,750	6,075,000	684,000	6,759,000
2044-2046	4,320,000	218,750	4,538,750	3,135,000	108,900	3,243,900

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018. However, the City was not in compliance with the continuing disclosure requirements. The failure to comply with the continuing disclosure requirements does not constitute an event of default on the bonds, but the bond holders will have any available remedy at law or in equity and the failure to provide the continuing disclosures must be reported and may adversely affect the transferability and liquidity of the Bonds and their market price.

Note 9 - Transfers

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

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

The following is a list of transfers for the year ending December 31, 2018:

Fund	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
General fund	\$ 10,669,431	\$ 16,038,500
Roughrider sales tax fund	1,100,000	3,700,426
Capital projects fund	3,945,713	1,414,522
Debt service fund	12,087,788	100,855
Nonmajor governmental funds	<u>4,370,842</u>	<u>10,919,471</u>
Total transfers	<u>\$ 32,173,774</u>	<u>\$ 32,173,774</u>

The transfers in and out during 2018 were budgeted transfers.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 10 - Fund Balance

At December 31, 2018, the governmental fund balance classifications are as follows:

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Restricted for						
City improvements	\$ -	\$ -	\$ -	\$ -	\$ 5,029,040	\$ 5,029,040
Capital projects	-	-	8,237,924	-	-	8,237,924
Debt service	163,000	3,275,679	-	9,502,688	-	12,941,367
Road projects	-	-	-	-	78,264	78,264
Committed for						
Capital projects	211,794	100,000	-	-	-	311,794
Economic development	-	-	-	-	37,763	37,763
Assigned for						
General government	-	-	-	-	1,073,862	1,073,862
Public safety	-	-	-	-	649,453	649,453
Economic development	-	-	-	-	157,031	157,031
Road projects	-	-	-	-	1,104,351	1,104,351
Unassigned	17,141,767	-	-	-	-	17,141,767
	<u>\$ 17,516,561</u>	<u>\$ 3,375,679</u>	<u>\$ 8,237,924</u>	<u>\$ 9,502,688</u>	<u>\$ 8,129,764</u>	<u>\$ 46,762,616</u>

Note 11 – OPEB Plan

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

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

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

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

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

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

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

At December 31, 2018, the Employer reported a liability of \$253,847 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.322317 percent, which was an increase of 0.001096 from its proportion measured as of June 30, 2017

For the year ended December 31, 2018, the Employer recognized OPEB expense of \$31,544. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,599	\$ 5,245
Changes of assumptions	20,828	-
Net difference between projected and actual earnings on pension plan investments	-	5,462
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,108	1,741
Employer contributions subsequent to the measurement date (see below)	6,216	-
Total	\$ 37,751	\$ 12,448

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

\$6,216 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019.

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

Year ended December 31:	
2019	\$ 170
2020	170
2021	170
2022	170
2023	170
Thereafter	517

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

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

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

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.46%

Discount rate. The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of the net OPEB liability	\$ 321,177	\$ 253,847	\$ 197,127

Note 12 – Pension Plan

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

At December 31, 2018, the Employer reported a liability of \$5,793, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the Employer's proportion was 0.343307 percent, which was an increase of 0.002892 from its proportion measured as of June 30, 2017.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

For the year ended December 31, 2018, the Employer recognized pension expense of \$1,145,788. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,336	\$ 197,112
Changes of assumptions	2,091,398	82,693
Net difference between projected and actual earnings on pension plan investments	-	28,187
Changes in proportion and differences between employer contributions and proportionate share of contributions	541,581	1
Employer contributions subsequent to the measurement date (see below)	<u>201,000</u>	<u>-</u>
 Total	 <u>\$ 2,849,315</u>	 <u>\$ 307,993</u>

\$201,000 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, 2019.

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

Year ended December 31:	
2019	\$ 786,308
2020	707,984
2021	552,319
2022	275,340
2023	1,871
Thereafter	-

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Actuarial assumptions. The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary increases

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

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

Investment rate of return 7.75%, 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 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.

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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 6.32 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 (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of the net pension liability	\$ 7,872,534	\$ 5,793,680	\$ 4,058,943

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

CITY OF WATFORD CITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

CITY OF WATFORD CITY

**REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

CITY OF WATFORD CITY
SCHEDULE OF THE EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

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

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

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

CITY OF WATFORD CITY
SCHEDULE OF THE EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

	2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	0.243845%	0.301585%	0.340415%	0.343307%
Employer's proportionate share of the net pension liability (asset)	1,658,103	2,939,240	5,471,585	5,793,680
Employer's covered-employee payroll	2,172,361	3,039,267	3,475,104	4,058,943
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	96.71%	157.45%	164.27%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	71.10%	62.70%	89.76%

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

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

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

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

CITY OF WATFORD CITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
COMPARISON OF BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 1,017,115	\$ 1,017,115	\$ 999,181	\$ (17,934)
Licenses and permits	260,300	260,300	233,161	(27,139)
Intergovernmental revenues	10,617,400	10,617,400	21,256,725	10,639,325
Charges for services	10,150	10,150	107,433	97,283
Fines and forfeitures	56,800	56,800	145,916	89,116
Miscellaneous	108,200	108,200	1,542,038	1,433,838
Internal services	5,000	5,000	204,615	199,615
Total revenues	<u>12,074,965</u>	<u>12,074,965</u>	<u>24,489,069</u>	<u>12,414,104</u>
Expenditures				
General government	3,224,089	3,224,089	3,048,877	(175,212)
Public safety	3,061,633	3,061,633	3,511,491	449,858
Public works	9,000	9,000	1,515	(7,485)
Social and economic services	971,000	971,000	1,193,652	222,652
Total expenditures	<u>7,265,722</u>	<u>7,265,722</u>	<u>7,755,535</u>	<u>489,813</u>
Excess (Deficiency) of Revenues over Expenditures				
Other Financing Sources (Uses)				
Transfers in	10,669,431	10,669,431	10,669,431	-
Transfers out	<u>(7,919,673)</u>	<u>(7,919,673)</u>	<u>(16,038,500)</u>	<u>(8,118,827)</u>
Total other financing sources and uses	<u>2,749,758</u>	<u>2,749,758</u>	<u>(5,369,069)</u>	<u>(8,118,827)</u>
Net change in fund balance	<u>\$ 7,559,001</u>	<u>\$ 7,559,001</u>	11,364,465	<u>\$ 3,805,464</u>
Fund Balance - Beginning			<u>6,152,096</u>	
Fund Balance - Ending			<u>\$ 17,516,561</u>	

CITY OF WATFORD CITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
COMPARISON OF BUDGET AND ACTUAL – ROUGHRIDER SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental revenues	\$ 2,000,000	\$ 2,000,000	\$ 4,687,476	\$ 2,687,476
Expenditures				
Social and economic services	<u>1,500,000</u>	<u>1,500,000</u>	<u>2,066,111</u>	<u>566,111</u>
Excess (Deficiency) of Revenues over Expenditures				
Other Financing Sources (Uses)				
Transfers in	-	-	1,100,000	1,100,000
Transfers out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(3,700,426)</u>	<u>(2,700,426)</u>
Total other financing sources and uses	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(2,600,426)</u>	<u>(1,600,426)</u>
Net change in fund balance	<u>\$ (500,000)</u>	<u>\$ (500,000)</u>	20,939	<u>\$ 520,939</u>
Fund Balance - Beginning			<u>3,354,740</u>	
Fund Balance - Ending			<u>\$ 3,375,679</u>	

CITY OF WATFORD CITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 1 – Pension: Changes of assumptions.

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 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.

Note 2 – Budget to Actual: Stewardship, Compliance, and Accountability

Budgetary Information

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

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

- On or before September 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the County Auditor by October 10.
- No disbursement shall be made, or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board. All annual appropriations lapse at year-end.



**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

The City Council
City of Watford City

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watford City as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Watford City's basic financial statements, and have issued our report thereon dated June 1, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses: 2018-001 and 2018-002.

Compliance and Other Matters

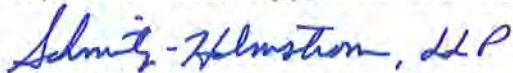
As part of obtaining reasonable assurance about whether City of Watford City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2018-003.

City of Watford City's Response to Findings

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

Purpose of this Report

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



Bismarck, ND

June 1, 2020, except for Note 1 as to which the date is July 23, 2020

CITY OF WATFORD CITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

2018-001 Preparation of Financial Statements

Material Weakness in Internal Control over Financial Reporting

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

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

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

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

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

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

2018-002 Segregation of Duties

Material Weakness in Internal Control over Financial Reporting

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

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

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

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

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

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

Compliance Item for Continuing Disclosure
2018-003 Failure to Provide Continuing Disclosure

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

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

Cause – The City was aware of the continuing disclosure requirements but the audit report for the year ended December 31, 2017 was not finalized until October 30, 2019.

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

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

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