

# **CITY OF WATFORD CITY**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

WITH INDEPENDENT AUDITOR'S REPORT

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**CITY OF WATFORD CITY**

**CITY OFFICIALS  
DECEMBER 31, 2020**

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

City Officials  
Peni Peterson, City Auditor  
Laura Dokken, Finance Director  
Curt Moen, City Administrator  
Justin Smith, Public Works Superintendent  
Jesse Wellen, Chief of Police



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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, 2020, 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements:

- The overstatement of net position balances was discovered during the current year. Accordingly, adjustments have been made to beginning net position as of January 1, 2020 to correct the error.

As discussed in Note 3 to the financial statements:

- The overstatement of various liability balances were discovered during the current year. Accordingly, adjustments have been made to the net position to correct the error.
- The understatement of account receivable balances relating to special assessment revenue and the understatement of special assessment revenue were discovered during the current year. Accordingly, adjustments have been made to the net position to correct the error.

Our opinions are not modified with respect to these matters.

## **Other Matters**

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

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

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Watford City's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 March 7, 2022 on our consideration of City of Watford City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Watford City's internal control over financial reporting and compliance.



Bismarck, North Dakota  
March 7, 2022

**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 45,069,587	\$ 8,992,515	\$ 54,062,102
Intergovernmental receivable	1,917,867	-	1,917,867
Taxes receivable	274,940	-	274,940
Special assessments receivable	18,298,874	4,639	18,303,513
Accounts receivable	52,828	968,561	1,021,389
Restricted cash	2,741,264	1,060,490	3,801,754
Capital assets			
Nondepreciable	18,575,866	358,335	18,934,201
Depreciable, net	164,518,256	60,682,618	225,200,874
Total assets	<u>251,449,482</u>	<u>72,067,158</u>	<u>323,516,640</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	41,059	10,047	51,106
Pensions	4,127,328	1,009,999	5,137,327
Deferred charge - debt refunding	730,766	-	730,766
Total deferred outflows of resources	<u>4,899,153</u>	<u>1,020,046</u>	<u>5,919,199</u>
<b>LIABILITIES</b>			
Accounts payable	2,997,601	833,614	3,831,215
Retainage payable	43,796	-	43,796
Interest payable	247,470	183,382	430,852
Noncurrent liabilities			
Due within one year			
Compensated absences	75,000	15,000	90,000
General obligation bonds	45,000	-	45,000
Certificates of indebtedness	5,568,675	-	5,568,675
Revenue bonds, net of premium	795,000	783,000	1,578,000
Refunding improvement bonds, net of premium	920,000	-	920,000

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION - CONTINUED**  
**DECEMBER 31, 2020**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Due in more than one year			
Compensated absences	63,855	64,925	128,780
General obligation bonds	350,000	-	350,000
Certificates of indebtedness	34,837,049	-	34,837,049
Revenue bonds, net of premium	32,565,000	25,566,000	58,131,000
Refunding improvement bonds, net of premium	18,695,000	-	18,695,000
Net OPEB liability	164,538	40,264	204,802
Net pension liability	6,767,873	1,656,166	8,424,039
	<u>104,135,857</u>	<u>29,142,351</u>	<u>133,278,208</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	37,995	9,298	47,293
Pensions	1,672,756	409,341	2,082,097
	<u>1,710,751</u>	<u>418,639</u>	<u>2,129,390</u>
<b>NET POSITION</b>			
Net investment in capital assets	89,849,183	34,691,953	124,541,136
Restricted for debt service	163,000	1,060,490	1,223,490
Restricted for city improvements	5,446,397	-	5,446,397
Restricted for road projects	78,264	-	78,264
Unrestricted	54,965,183	7,773,771	62,738,954
	<u>150,502,027</u>	<u>43,526,214</u>	<u>194,028,241</u>
Total net position	<u>\$ 150,502,027</u>	<u>\$ 43,526,214</u>	<u>\$ 194,028,241</u>

See Notes to the Financial Statements



**CITY OF WATFORD CITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	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							
General government	\$ 13,457,499	\$ 539,139	\$ -	\$ -	\$ (12,918,360)	\$ -	\$ (12,918,360)
Public safety	5,125,428	63,970	24,201	-	(5,037,257)	-	(5,037,257)
Public works	1,432,896	-	-	-	(1,432,896)	-	(1,432,896)
Social and economic services	1,376,214	11,345	-	-	(1,364,869)	-	(1,364,869)
Interest on long-term debt	3,649,159	-	-	-	(3,649,159)	-	(3,649,159)
Total governmental activities	<u>25,041,196</u>	<u>614,454</u>	<u>24,201</u>	<u>-</u>	<u>(24,402,541)</u>	<u>-</u>	<u>(24,402,541)</u>
Business-type activities							
Water	2,373,962	2,265,254	-	-	-	(108,708)	(108,708)
Sewer	3,478,806	1,344,503	-	-	-	(2,134,303)	(2,134,303)
Garbage	977,156	1,441,035	-	-	-	463,879	463,879
Total business-type activities	<u>6,829,924</u>	<u>5,050,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,779,132)</u>	<u>(1,779,132)</u>
Total primary government	<u>\$ 31,871,120</u>	<u>\$ 5,665,246</u>	<u>\$ 24,201</u>	<u>\$ -</u>	<u>(24,402,541)</u>	<u>(1,779,132)</u>	<u>(26,181,673)</u>
General revenue							
Property taxes					2,059,657	-	2,059,657
City sales tax					3,507,088	-	3,507,088
Oil and gas production tax					9,670,674	-	9,670,674
State aid and revenues not restricted to specific programs					11,566,881	-	11,566,881
Unrestricted interest income					83,042	-	83,042
Gain on sale of capital assets					130,500	-	130,500
Miscellaneous					653,677	-	653,677
Transfers					(247,766)	247,766	-
Total general revenues					<u>27,423,753</u>	<u>247,766</u>	<u>27,671,519</u>
Change in net position					<u>3,021,212</u>	<u>(1,531,366)</u>	<u>1,489,846</u>
Net position, beginning of year, as originally stated					147,994,893	45,057,580	193,052,473
Restatement					<u>(514,078)</u>	<u>-</u>	<u>(514,078)</u>
Net position, beginning of year, as restated					<u>147,480,815</u>	<u>45,057,580</u>	<u>192,538,395</u>
Net position, end of year					<u>\$ 150,502,027</u>	<u>\$ 43,526,214</u>	<u>\$ 194,028,241</u>

**CITY OF WATFORD CITY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2020**

	General Fund	Roughrider Sales Tax Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 14,543,201	\$ 1,359,815	\$ 9,209,102	\$ 12,009,217	\$ 7,948,252	\$ 45,069,587
Restricted cash	163,000	2,500,000	-	-	78,264	2,741,264
Accounts receivable	52,828	-	-	-	-	52,828
Intergovernmental receivable	1,240,429	488,586	-	-	188,852	1,917,867
Taxes receivable	9,407	-	-	-	4,855	14,262
Special assessments receivable	-	-	-	18,298,874	-	18,298,874
<b>Total assets</b>	<b>16,008,865</b>	<b>4,348,401</b>	<b>9,209,102</b>	<b>30,308,091</b>	<b>8,220,223</b>	<b>68,094,682</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	1,177,096	-	212,394	-	1,848,517	3,238,007
Retainage payable	32,295	-	11,501	-	-	43,796
<b>Total liabilities</b>	<b>1,209,391</b>	<b>-</b>	<b>223,895</b>	<b>-</b>	<b>1,848,517</b>	<b>3,281,803</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable property taxes	28,035	-	-	-	1,663	29,698
Unavailable special assessments receivable	260,679	-	-	18,427,898	-	18,688,577
<b>Total deferred inflows of resources</b>	<b>288,714</b>	<b>-</b>	<b>-</b>	<b>18,427,898</b>	<b>1,663</b>	<b>18,718,275</b>
<b>FUND BALANCES</b>						
Restricted	163,000	4,269,401	8,985,207	11,880,193	1,255,260	26,553,061
Committed	235,894	79,000	-	-	80,134	395,028
Assigned	-	-	-	-	5,034,649	5,034,649
Unassigned	14,111,866	-	-	-	-	14,111,866
<b>Total fund balances</b>	<b>14,510,760</b>	<b>4,348,401</b>	<b>8,985,207</b>	<b>11,880,193</b>	<b>6,370,043</b>	<b>46,094,604</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 16,008,865</b>	<b>\$ 4,348,401</b>	<b>\$ 9,209,102</b>	<b>\$ 30,308,091</b>	<b>\$ 8,220,223</b>	<b>\$ 68,094,682</b>

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, 2020**

Total fund balance, governmental funds \$ 46,094,603

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	207,320,057	
Less accumulated depreciation	<u>(24,225,935)</u>	
Net capital assets		183,094,122

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 19,219,360

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 (4,313,301)

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 (161,474)

CITY OF WATFORD CITY

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET POSITION - CONTINUED  
DECEMBER 31, 2020

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, 2020 are:

Compensated absences	(138,855)	
Interest payable	(247,470)	
Certificates of indebtedness	(39,674,958)	
Bonds payable, net of premium	<u>(53,370,000)</u>	
Total noncurrent liabilities		<u>(93,431,283)</u>

Net position of governmental activities in the Statement of Net Position		<u>\$ 150,502,027</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, 2020**

	<b>General Fund</b>	<b>Roughrider Sales Tax Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>						
Taxes	\$ 1,016,385	\$ -	\$ -	\$ -	\$ 534,828	\$ 1,551,213
Licenses and permits	342,058	-	-	-	-	342,058
Special assessments	16,304	-	-	1,858,090	-	1,874,394
Intergovernmental revenues	12,721,782	3,507,087	-	-	721,947	16,950,816
Charges for services	197,081	-	-	-	-	197,081
Fines and forfeitures	63,970	-	-	-	-	63,970
Interest income	82,789	-	-	-	253	83,042
Other income	189,387	-	330,836	-	144,799	665,022
<b>Total revenues</b>	<b>14,629,756</b>	<b>3,507,087</b>	<b>330,836</b>	<b>1,858,090</b>	<b>1,401,827</b>	<b>21,727,596</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	3,538,317	-	-	-	1,055,915	4,594,232
Public safety	3,231,778	1,754,654	-	-	138,994	5,125,426
Public works	5,486	-	142,993	-	1,284,418	1,432,897
Social and economic services	1,171,689	-	151,015	-	53,509	1,376,213
<b>Debt service</b>						
Principal	-	-	-	7,085,000	-	7,085,000
Interest	-	-	-	3,727,835	-	3,727,835
Capital outlay	407,431	-	865,573	-	592,219	1,865,223
<b>Total expenditures</b>	<b>8,354,701</b>	<b>1,754,654</b>	<b>1,159,581</b>	<b>10,812,835</b>	<b>3,125,055</b>	<b>25,206,826</b>
Excess (deficiency) of revenues over expenditures	6,275,055	1,752,433	(828,745)	(8,954,745)	(1,723,228)	(3,479,230)
<b>Other Financing Sources (Uses)</b>						
Transfers in	9,206,344	-	(2,918,772)	9,099,282	2,631,606	18,018,460
Transfers out	(12,706,938)	(1,998,352)	(472,811)	-	(3,088,125)	(18,266,226)
Proceeds from sale of capital capital assets	130,500	-	-	-	-	130,500
Refunding debt proceeds	-	-	-	-	-	-
Payment to refunded debt escrow agent	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(3,370,094)</b>	<b>(1,998,352)</b>	<b>(3,391,583)</b>	<b>9,099,282</b>	<b>(456,519)</b>	<b>(117,266)</b>
<b>Net change in fund balance</b>	<b>2,904,961</b>	<b>(245,919)</b>	<b>(4,220,328)</b>	<b>144,537</b>	<b>(2,179,747)</b>	<b>(3,596,496)</b>
Fund balance, beginning of year, as originally stated	11,541,850	4,594,320	13,057,020	11,928,655	8,546,003	49,667,848
Restatement	63,949	-	148,516	(192,999)	3,785	23,251
Fund balance, beginning of year as restated	11,605,799	4,594,320	13,205,536	11,735,656	8,549,788	49,691,099
<b>Fund balance, end of year</b>	<b>\$ 14,510,760</b>	<b>\$ 4,348,401</b>	<b>\$ 8,985,208</b>	<b>\$ 11,880,193</b>	<b>\$ 6,370,041</b>	<b>\$ 46,094,603</b>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

Net change in fund balances - total governmental funds \$ (3,596,496)

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	8,161,907	
Current year depreciation	(5,612,704)	
		2,549,203

The net effect of various transactions  
involving assets is to increase net position.  
In the Statement of Activities, no expenditures  
are reported, whereas in the governmental funds,  
the expenditures decrease financial resources. 615,901

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. 1,427,763

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. (4,591,373)

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, 2020

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.	(221,316)
Accrued interest payable does not use current financial resources and therefore are not reported as expenditures	(247,470)
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>7,085,000</u>
Change in Net Position	<u>\$ 3,021,212</u>

**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**DECEMBER 31, 2020**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,785,681	\$ 1,287,008	\$ 1,919,826	\$ 8,992,515
Accounts receivable	732,069	102,673	133,819	968,561
Special assessments receivable	2,094	579	1,966	4,639
Total current assets	<u>6,519,844</u>	<u>1,390,260</u>	<u>2,055,611</u>	<u>9,965,715</u>
<b>NONCURRENT ASSETS</b>				
Restricted cash	-	1,060,490	-	1,060,490
Amounts to be provided	-	-	-	-
Capital assets				
Nondepreciable	203,135	155,200	-	358,335
Depreciable, net	15,216,460	45,036,704	429,454	60,682,618
Total non-current assets	<u>15,419,595</u>	<u>46,252,394</u>	<u>429,454</u>	<u>62,101,443</u>
Total assets	<u>21,939,439</u>	<u>47,642,654</u>	<u>2,485,065</u>	<u>72,067,158</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
OPEB	2,100	3,925	4,022	10,047
Pension	211,144	394,547	404,308	1,009,999
Total deferred outflows of resources	<u>213,244</u>	<u>398,472</u>	<u>408,330</u>	<u>1,020,046</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	814,350	19,478	(214)	833,614
Interest payable	1,529	181,853	-	183,382
Compensated absences	5,000	5,000	5,000	15,000
Revenue bonds	18,000	765,000	-	783,000
Total current liabilities	<u>838,879</u>	<u>971,331</u>	<u>4,786</u>	<u>1,814,996</u>

See Notes to the Financial Statements



**CITY OF WATFORD CITY**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS - CONTINUED**  
**DECEMBER 31, 2020**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	8,060	27,877	28,988	64,925
Revenue bonds	146,000	25,420,000	-	25,566,000
Net OPEB liability	8,417	15,729	16,118	40,264
Net pension liability	<u>346,228</u>	<u>646,966</u>	<u>662,972</u>	<u>1,656,166</u>
Total noncurrent liabilities	<u>508,705</u>	<u>26,110,572</u>	<u>708,078</u>	<u>27,327,355</u>
Total liabilities	<u>1,347,584</u>	<u>27,081,903</u>	<u>712,864</u>	<u>29,142,351</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
OPEB	1,944	3,632	3,722	9,298
Pension	<u>85,574</u>	<u>159,906</u>	<u>163,861</u>	<u>409,341</u>
Total deferred inflows of resources	<u>87,518</u>	<u>163,538</u>	<u>167,583</u>	<u>418,639</u>
<b>NET POSITION</b>				
Net investment in capital assets	15,255,595	19,006,904	429,454	34,691,953
Restricted for debt service	-	1,060,490	-	1,060,490
Unrestricted	<u>5,461,985</u>	<u>728,292</u>	<u>1,583,494</u>	<u>7,773,771</u>
Total net position	<u>\$ 20,717,580</u>	<u>\$ 20,795,686</u>	<u>\$ 2,012,948</u>	<u>\$ 43,526,214</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, 2020**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Revenues				
Charges for services	\$ 2,265,254	\$ 1,344,503	\$ 1,441,035	\$ 5,050,792
Expenses				
Cost of services	1,808,164	628,426	812,213	3,248,803
Contractual and professional services	5,195	5,194	5,719	16,108
Materials and maintenance	(7,672)	103,223	61,501	157,052
Utilities	10,680	101,626	7,731	120,037
Supplies	5,117	44,844	2,716	52,677
Administration	5,695	16,834	4,702	27,231
Depreciation	569,485	1,904,822	82,574	2,556,881
Total operating expenses	<u>2,396,664</u>	<u>2,804,969</u>	<u>977,156</u>	<u>6,178,789</u>
Operating income (loss)	<u>(131,410)</u>	<u>(1,460,466)</u>	<u>463,879</u>	<u>(1,127,997)</u>
Nonoperating revenues (expenses)				
Capital contributions	-	-	-	-
Interest expense	(4,550)	(541,050)	-	(545,600)
Miscellaneous income	28,161	1,963	-	30,124
Service charges and administrative fees	(910)	(134,750)	-	(135,660)
Total nonoperating revenues (expenses)	22,701	(673,837)	-	(651,136)
Net income (loss) before transfers	<u>(108,709)</u>	<u>(2,134,303)</u>	<u>463,879</u>	<u>(1,779,133)</u>
Transfers	<u>(111,234)</u>	<u>359,000</u>	<u>-</u>	<u>247,766</u>
Change in net position	<u>(219,943)</u>	<u>(1,775,303)</u>	<u>463,879</u>	<u>(1,531,367)</u>
Total net position, beginning of year, as originally stated	20,765,890	22,570,989	1,720,701	45,057,580
Restatement	<u>171,632</u>	<u>-</u>	<u>(171,632)</u>	<u>-</u>
Total net position, beginning of year, as restated	<u>20,937,522</u>	<u>22,570,989</u>	<u>1,549,069</u>	<u>45,057,580</u>
Total net position, end of year	<u>\$ 20,717,579</u>	<u>\$ 20,795,686</u>	<u>\$ 2,012,948</u>	<u>\$ 43,526,213</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 2,282,218	\$ 1,412,435	\$ 1,440,346	\$ 5,134,999
Receipts from other funds	324	310	-	634
Payments to suppliers	(1,651,425)	(436,625)	(404,535)	(2,492,585)
Payments to employees	(229,589)	(434,393)	(454,999)	(1,118,981)
Net cash provided by operating activities	<u>401,528</u>	<u>541,727</u>	<u>580,812</u>	<u>1,524,067</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>				
Receipts from nonoperating activities	<u>28,161</u>	<u>1,963</u>	<u>-</u>	<u>30,124</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments on debt	(18,000)	(765,000)	-	(783,000)
Debt issuance costs	(910)	(134,750)	-	(135,660)
Interest paid	(4,550)	(541,050)	-	(545,600)
Intergovernmental transfers related to acquisition of capital assets	(136,897)	359,000	(111,234)	110,869
Receipts from restricted funds for capital asset purchases	-	-	-	-
Capital asset purchases	<u>69,214</u>	<u>-</u>	<u>-</u>	<u>69,214</u>
Net cash used by capital and related financing activities	<u>(91,143)</u>	<u>(1,081,800)</u>	<u>(111,234)</u>	<u>(1,284,177)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	338,546	(538,110)	469,578	270,014
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>5,447,135</u>	<u>2,885,608</u>	<u>1,450,248</u>	<u>9,782,991</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,785,681</u>	<u>\$ 2,347,498</u>	<u>\$ 1,919,826</u>	<u>\$ 10,053,005</u>
Reconciliation of cash and cash equivalents				
Cash	\$ 5,785,681	\$ 1,287,008	\$ 1,919,826	\$ 8,992,515
Restricted cash	-	1,060,490	-	1,060,490
Total cash and cash equivalents	<u>\$ 5,785,681</u>	<u>\$ 2,347,498</u>	<u>\$ 1,919,826</u>	<u>\$ 10,053,005</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (131,410)	\$ (1,460,466)	\$ 463,879	\$ (1,127,997)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	569,485	1,904,822	82,574	2,556,881
Bad debt expense	(1,533)	-	-	(1,533)
Effects on cash flows due to changes in				
Accounts receivable	15,643	67,137	(1,513)	81,267
Special assessments receivable	112	619	408	1,139
Deferred outflows	(113,036)	(206,744)	(201,688)	(521,468)
Accounts payable	(85,588)	(26,776)	(2,619)	(114,983)
Deferred inflows	(7,169)	(17,628)	(27,676)	(52,473)
Net pension and OPEB liabilities	<u>155,024</u>	<u>280,763</u>	<u>267,447</u>	<u>703,234</u>
Net cash provided by operating activities	<u>\$ 401,528</u>	<u>\$ 541,727</u>	<u>\$ 580,812</u>	<u>\$ 1,524,067</u>

See Notes to the Financial Statements

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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 criterion 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 2020.

McKenzie County Correctional Facility – The City and McKenzie County have entered into a joint powers agreement for the joint administration of a city-county regional correctional center that provides for the best interests of the citizens of McKenzie County and Watford City and promotes cooperation between them. The correctional facility has a governing board that consists of two County Commissioners, two City Council members and one member at large (citizen). The governing board of the correctional facility supervises the administration of expenditures, operations and management of the facility. Employees hired for the operation of the facility are employees/ of the County. The City is responsible for payment of an agreed upon per diem per inmate held and for payment of medical or health care costs of inmates held on violation of a Watford City ordinance or held at the request of the City. The City expended funds of \$119,369 in relation to the correctional facility in 2020. Financial statements for the McKenzie County Correctional Facility can be obtained through request of the McKenzie County Auditor’s Office.

***Measurement Focus and Basis of Accounting***

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year which all eligibility requirements have been satisfied.

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

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

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

***Government-Wide Financial Statements***

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designated to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

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

***Fund Financial Statements***

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

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

***Financial Statement Presentation***

The City reports the following major governmental funds:

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

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.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

The City reports the following major enterprise funds:

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

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

***Budgets and Budgetary Accounting***

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

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

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

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

***Cash and Cash Equivalents***

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

***Restricted Cash***

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

***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, 2020, all of the City's investments consisted of certificates of deposit with a local financial institution that meet the criteria of cash and cash equivalents and these investments are presented as cash and cash equivalents.

***Capital Assets***

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

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

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

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

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



**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020.

***Compensated Absences***

The City allows employees to accumulate earned but unused Paid Time Off (PTO) leave benefits. Upon termination of employment, employees will be paid for 100% unused PTO that has been earned through the last day of work. Cash payment in lieu of unused PTO is not allowed while employed with the City. Amounts are reported as liabilities in the appropriate governmental or business type activity in the government wide statements. Expenditure for unpaid PTO benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting and expenses for PTO benefits are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

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

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

***Pensions***

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

***Deferred Outflows and Inflows of Resources***

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

***Long-Term Debt***

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

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

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

***Net Position and Fund Balance***

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

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

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

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

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

***Internal and Interfund Balances and Activities***

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

***Property Taxes***

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

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

***Abatements***

A tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to tax a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. As of December 31, 2020, the City of Watford City provided tax abatements in the form of property tax exemptions for properties used as affordable housing.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

***Use of Estimates***

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

**NOTE 2 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was necessary to properly state the beginning net asset balances. The result of this adjustment decreased net position for governmental activities by \$514,078.

**NOTE 3 – CURRENT YEAR RESTATEMENTS**

Current year restatements were necessary to close out funds not currently used, to adjust accounts receivable balances relating to special assessments and special assessment revenue as well as to adjust various liability balances. The result of these adjustment increased fund balance for the general fund by \$63,949, capital projects fund by \$148,516 and nonmajor governmental funds by \$3,785. Fund balance decreased for the debt service fund by \$192,999.

**NOTE 4 – CASH AND CASH EQUIVALENTS**

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

**Custodial Credit Risk**

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

At year end December 31, 2020, the City's carrying amount of deposits was \$57,863,858 and the bank balance was \$52,078,758. All of the bank balances were covered by Federal Depository Insurance or coverage substantially the same as that provided by federal deposit insurance or collateralized with securities held by the pledging financial institution's agent in the government's name.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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, 2020, all accounts were considered collectible and accordingly no allowance was recorded. There were also no discounts applied to balances in the current year. Activity between funds that are representative of lending/borrowing arrangements outstanding at fiscal year-end are referred to as “due to/from other funds.” Advances between funds are not available to appropriation and are not expendable financial resources.

The special assessment receivable balance for the year ended December 31, 2020 was \$18,303,513. The amount of special assessment receivables that were delinquent for the year ended December 31, 2020 was \$118,685.

**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, 2020 is as follows:

<b>Governmental Activities</b>	<b>Balance 1/1/20</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Balance 12/31/20</b>
Capital assets not being depreciated					
Land	\$ 6,633,753	\$ -	\$ -	\$ -	\$ 6,633,753
Construction in progress	15,179,556	113,285	(2,968,608)	(382,120)	11,942,113
Total capital assets not being depreciated	<u>21,813,309</u>	<u>113,285</u>	<u>(2,968,608)</u>	<u>(382,120)</u>	<u>18,575,866</u>
Capital assets being depreciated					
Buildings and infrastructure	109,213,515	-	-	-	109,213,515
Machinery and equipment	6,598,087	1,221,584	-	(135,444)	7,684,227
Improvements other than buildings	61,937,518	6,940,323	2,968,608	-	71,846,449
Total capital assets being depreciated	<u>177,749,120</u>	<u>8,161,907</u>	<u>2,968,608</u>	<u>(135,444)</u>	<u>188,744,191</u>

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Less accumulated depreciation					
Buildings and infrastructure	6,641,894	2,840,677	-	-	9,482,571
Machinery and equipment	3,005,120	640,732	-	(65,272)	3,580,580
Improvements other than buildings	<u>7,950,179</u>	<u>2,131,295</u>	<u>1,081,310</u>	<u>-</u>	<u>11,162,784</u>
Total accumulated depreciation	<u>17,597,193</u>	<u>5,612,704</u>	<u>1,081,310</u>	<u>(65,272)</u>	<u>24,225,935</u>
Total capital assets being depreciated	<u>160,151,927</u>	<u>2,549,203</u>	<u>1,887,298</u>	<u>(70,172)</u>	<u>164,518,256</u>
Governmental capital assets, net	<u>\$ 181,965,236</u>	<u>\$ 2,662,488</u>	<u>\$ (1,081,310)</u>	<u>\$ (452,292)</u>	<u>\$ 183,094,122</u>

Governmental capital assets depreciation expense was charged to functions of the City as follows:

General government	\$ 2,839,719
Public safety	2,131,294
Public works	640,731
Social and economic services	<u>960</u>
Total depreciation expense	<u>\$ 5,612,704</u>

	<u>Balance 1/1/20</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance 12/31/20</u>
<b>Business-Type Activities</b>					
Capital assets not being depreciated					
Land	\$ 25,143	\$ -	\$ -	\$ -	\$ 25,143
Construction in progress	<u>1,125,377</u>	<u>-</u>	<u>(792,185)</u>	<u>-</u>	<u>333,192</u>
Total capital assets not being depreciated	<u>1,150,520</u>	<u>-</u>	<u>(792,185)</u>	<u>-</u>	<u>358,335</u>
Capital assets being depreciated					
Buildings and infrastructure	68,732,613	69,214	792,185	-	69,594,012
Machinery and equipment	1,361,593	-	-	-	1,361,593
Improvements other than buildings	<u>2,803,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,803,159</u>
Total capital assets being depreciated	<u>72,897,365</u>	<u>69,214</u>	<u>792,185</u>	<u>-</u>	<u>73,758,764</u>
Less accumulated depreciation					
Buildings and infrastructure	9,315,166	2,365,960	-	-	11,681,126
Machinery and equipment	469,994	120,467	-	-	590,461
Improvements other than buildings	<u>734,106</u>	<u>70,453</u>	<u>-</u>	<u>-</u>	<u>804,559</u>
Total accumulated depreciation	<u>10,519,266</u>	<u>2,556,880</u>	<u>-</u>	<u>-</u>	<u>13,076,146</u>
Total capital assets being depreciated	<u>62,378,099</u>	<u>(2,487,666)</u>	<u>792,185</u>	<u>-</u>	<u>60,682,618</u>
Business-type capital assets, net	<u>\$ 63,528,619</u>	<u>\$ (2,487,666)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,040,953</u>

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

Water	\$ 569,485
Sewer	1,904,822
Garbage	<u>82,574</u>
 Total depreciation expense	 <u>\$ 2,556,881</u>

**NOTE 8 – LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2020:

<b>Governmental Activities</b>	<b>Balance 1/1/20</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 12/31/20</b>	<b>Due Within One Year</b>
Compensated absences	\$ 138,855	\$ -	\$ -	\$ 138,855	\$ 75,000
General obligation bonds	440,000	-	45,000	395,000	45,000
Certificates of indebtedness	45,235,000	-	5,380,000	39,855,000	5,490,000
Plus unamortized premiums	629,399	-	78,675	550,724	78,675
Revenue bonds	34,130,000	-	770,000	33,360,000	795,000
Plus unamortized premiums	-	-	-	-	-
Refunding improvement bonds	20,505,000	-	890,000	19,615,000	920,000
Plus unamortized premiums	-	-	-	-	-
 Total	 <u>\$ 101,078,254</u>	 <u>\$ -</u>	 <u>\$ 7,163,675</u>	 <u>\$ 93,914,579</u>	 <u>\$ 7,403,675</u>
 <b>Business-Type Activities</b>	 <b>Balance 1/1/20</b>	 <b>Additions</b>	 <b>Reductions</b>	 <b>Balance 12/31/20</b>	 <b>Due Within One Year</b>
Compensated absences	\$ 79,925	\$ -	\$ -	\$ 79,925	\$ 15,000
Revenue bonds	27,132,000	-	783,000	26,349,000	783,000
 Total	 <u>\$ 27,211,925</u>	 <u>\$ -</u>	 <u>\$ 783,000</u>	 <u>\$ 26,428,925</u>	 <u>\$ 798,000</u>

Outstanding debt at December 31, 2020 (excluding compensated absences) consisted of the following issues:

**Certificates of Indebtedness**

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

\$ 39,855,000

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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	\$ 925,000
\$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 through the Rough Rider Sales Tax Fund	<u>32,435,000</u>
Total Revenue Bonds	<u>\$ 33,360,000</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 \$1,133,915. Principal payments of \$105,000 and interest payments of \$24,289 were made in the current year. The oil and gas tax and public domain revenues in the current year were \$9,670,674 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. Proceeds from the bonds provided financing for building construction of the Watford City Rough Rider Center. The sales tax revenues in the current year were \$3,996,703.

**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>\$ 19,615,000</u>
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**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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 \$ 164,000

\$808,588 Sewer Revenue Bonds, Series 2008; due in annual installments of \$49,125 to \$53,750 through September 1, 2028; interest at 2.5% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund 370,000

\$19,000,000 Sewer Revenue Bonds, Series 2015; due in annual installments of \$769,570 through September 1, 2045; interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund 16,465,000

\$14,000,000 Sewer Revenue Bonds, Series 2015B; due in annual annual installments of \$139,977 through September 1, 2046 interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund 9,350,000

Total business-type activities bonds \$ 26,349,000

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 \$201,075. Principal payments of \$18,000 and interest payments of \$4,550 were made in the current year. The water fund net revenues in the current year were (\$219,943).

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 \$453,000. Principal payments of \$40,000 and interest payments of \$10,250 were made in the current year. The oil and gas production taxes revenue in the current year was \$9,670,674 and sewer fund net revenues in the current year were (\$1,460,466).

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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 \$25,815,000 was advanced and outstanding at December 31, 2020. Principal payments of \$725,000 and interest payments of \$530,800 were made in the current year. The oil and gas production taxes revenue in the current year was \$9,670,674 and the sewer fund net revenues in the current year were (\$1,775,303).

The annual maturity of long-term debt of the City, except compensated absences payable, as of December 31, 2020 is as follows:

Year Ended December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2021	7,328,675	3,559,045	10,887,720	798,000	539,500	1,337,500
2022	7,553,675	3,324,524	10,878,199	824,000	513,400	1,337,400
2023	7,803,675	3,073,475	10,877,150	845,000	496,600	1,341,600
2024	8,073,675	2,814,520	10,888,195	865,000	479,375	1,344,375
2025	8,273,675	2,602,134	10,875,809	881,000	461,750	1,342,750
2026-2030	22,572,350	9,889,786	32,462,136	4,631,000	2,030,500	6,661,500
2031-2035	14,300,000	7,672,750	21,972,750	4,990,000	1,555,900	6,545,900
2036-2040	7,825,000	3,525,125	11,350,125	5,645,000	1,031,200	6,676,200
2041-2045	10,045,000	1,305,625	11,350,625	6,385,000	437,900	6,822,900
2046-2047	-	-	-	485,000	9,700	494,700

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, 2020. 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.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

The following is a list of transfers for the year ending December 31, 2020:

<b>Fund</b>	<b><u>Transfers In</u></b>	<b><u>Transfers Out</u></b>
Governmental funds		
General fund	9,206,344	12,706,938
Roughrider sales tax fund	-	1,998,352
Capital projects fund	(2,918,772)	472,811
Debt service fund	9,099,282	-
Nonmajor governmental funds	2,631,606	3,088,125
Water fund	-	111,234
Sewer fund	359,000	-
Nonmajor enterprise funds	(111,234)	(111,234)
	<u>\$ 18,266,226</u>	<u>\$ 18,266,226</u>
Total transfers		

The transfers in and out during 2020 were budgeted transfers.

**NOTE 10 – FUND BALANCE**

At December 31, 2020, the governmental fund balance classifications are as follows:

	<b><u>General Fund</u></b>	<b><u>Roughrider Sales Tax Fund</u></b>	<b><u>Capital Projects Fund</u></b>	<b><u>Debt Service Fund</u></b>	<b><u>Nonmajor Governmental Funds</u></b>	<b><u>Total</u></b>
Restricted for						
City improvements	\$ -	\$ -	\$ -	\$ -	\$ 1,176,996	\$ 1,176,996
Capital projects	-	-	8,985,207	-	-	8,985,207
Debt service	163,000	4,269,401	-	11,880,193	-	16,312,594
Road projects	-	-	-	-	78,264	78,264
Committed for						
Capital projects	235,894	79,000	-	-	-	314,894
Economic development	-	-	-	-	80,134	80,134
Assigned for						
General government	-	-	-	-	1,115,455	1,115,455
Public safety	-	-	-	-	303,359	303,359
Economic development	-	-	-	-	1,749,085	1,749,085
Road projects	-	-	-	-	1,866,750	1,866,750
Unassigned	14,111,866	-	-	-	-	14,111,866
	<u>\$ 14,510,760</u>	<u>\$ 4,348,401</u>	<u>\$ 8,985,207</u>	<u>\$ 11,880,193</u>	<u>\$ 6,370,043</u>	<u>\$ 46,094,604</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,

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

At December 31, 2020, the Employer reported a liability of \$204,802 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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, 2020, the Employer's proportion was 0.243465 percent, which was a decrease of 0.096155 from its proportion measured as of December 31, 2019.

For the year ended December 31, 2020, the Employer recognized OPEB expense of \$32,605. At December 31, 2020, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 4,548	\$ 4,910
Changes of assumptions	27,460	-
Net difference between projected and actual earnings on pension plan investments	7,043	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,055	42,383
Employer contributions subsequent to the measurement date (see below)	4,333	-
<b>Total</b>	<b>\$ 55,439</b>	<b>\$ 47,293</b>

\$4,333 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, 2021.

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:	
2021	\$ (6,087)
2022	(6,807)
2023	(6,807)
2024	(6,610)
2025	(3,720)
Thereafter	423

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

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

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

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Employer's proportionate share of the net OPEB liability	\$ 268,603	\$ 204,802	\$ 150,850

**NOTE 12 – PENSION PLAN**

**General Information about the Pension Plan**

***North Dakota Public Employees Retirement System (Main System)***

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

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

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

***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

***Death and Disability Benefits***

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

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

***Refunds of Member Account Balance***

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

***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation



**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020, the Employer reported a liability of \$8,424,039 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Employer's proportion was 0.267768 percent, which was an increase of 0.096565 from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the Employer recognized pension expense of \$1,504,495. At December 31, 2020, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 32,785	\$ 426,855
Changes of assumptions	4,515,816	746,576
Net difference between projected and actual earnings on pension plan investments	271,885	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	316,841	908,666
Employer contributions subsequent to the measurement date (see below)	<u>212,304</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 5,349,631</u></b>	<b><u>\$ 2,082,097</u></b>

\$212,304 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, 2021.

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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:	
2021	\$ 1,023,450
2022	788,144
2023	580,694
2024	662,942
2025	-

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

Inflation 2.50%

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

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

Investment rate of return 7.50%, net of investment expenses

Cost-of-living adjustments None

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

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

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

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

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

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Employer's proportionate share of the net pension liability	\$ 10,929,558	\$ 8,424,039	\$ 6,373,914

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

**NOTE 13 - CONDUIT DEBT**

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

**NOTE 14 – ABATEMENTS**

The affordable housing property tax exemption, NDCC Section 57-02-08 Subsection 43, is for all residential rental property, inclusive of land and administrative and auxiliary buildings, used as affordable housing and shall be exempt from taxation for the property's period of availability. The property must be owned by a qualified nonprofit entity, as defined in section 42 of the Internal Revenue Code [26 U.S.C. 42]. In 2020, the city abated a total of \$4,737 for three parcels that provide affordable housing.

**NOTE 15 – COMMITMENTS**

The City has entered into loan guarantees related to Wolf Run Village, a 501(c)(3) not-for-profit corporation. The City entered into these guarantees to address critical affordable housing needs for City, School and County employees. As of December 31, 2020 outstanding guaranteed loans were approximately \$4,961,947. Related to these guarantees the City has entered into joint powers agreements with McKenzie County Public School District No. 1 and McKenzie County. Under these agreements the School District and the County each agree to reimburse the City for 1/3 of each monthly guaranty obligation paid by the City up to \$15,000. For the year ending December 31, 2020 the City's share for expenditures related to the guaranty was approximately \$104,827.

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

**CITY OF WATFORD CITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

maintenance certain equipment and to maintain adequate insurance. Related expenditures for these commitments were approximately \$133,254 for the current year. The City also loans equipment, machinery and employees to the Golf Club.

**NOTE 16 – CONCENTRATIONS**

The City had certain tax and revenue which individually represented 10% or more of the City's total revenue. At December 31, 2020, the City received \$2,322,081 from the Federal Government, and tax revenues totaled \$19,624,132 from the State of North Dakota.

The City had certain expenditures which individually represented 10% or more of the City's total expenditures. At December 31, 2020, the City had \$5,249,601 in expenses for the 14<sup>th</sup> Ave SE paving project to Northern Improvement Company, and \$6,477,431 was spent on bond and interest payments.

**NOTE 17 – SUBSEQUENT EVENTS**

In December of 2021, the McKenzie County Board of Commissioners approved a \$1 million contribution towards 2022 City infrastructure projects.

As of January 1, 2021, the City was in full financial control of the Fox Hills Golf Course. As of January 1, 2022, the City was in full management control of the Fox Hills Golf Course.

The 2022 budget does not have an Economic Development (FTE) position. The City is currently reviewing the position as part of their 2040 Infrastructure Master Planning process.

In January 2022 the City Council approved paying off the 2009 Water Bonds. As of December 31, 2020 the bonds had a principal balance of \$164,000. The principal amount to satisfy the pay off in January 2022 was \$146,000. Also paid in January 2022 was \$1,825 in interest and \$365 in administration fees.

There is no further debt on the Water Fund 5010.

The City has evaluated subsequent events through March 7, 2022, the date which the financial statements were available to be issued.

# **CITY OF WATFORD CITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2020**

**CITY OF WATFORD CITY**  
**SCHEDULE OF THE EMPLOYER'S SHARE OF NET OPEB LIABILITY**  
**AND EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Employer's proportion of the net OPEB liability (asset)	0.321221%	0.322317%	0.339620%	0.243465%
Employer's proportionate share of the net OPEB liability (asset)	254,089	253,847	272,778	204,802
Employer's covered-employee payroll	3,475,104	3,526,851	3,789,680	2,775,429
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%	7.20%	7.20%	7.38%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%	61.89%	63.13%	63.38%

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

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Statutorily required contribution	40,396	41,368	44,074	32,605
Contributions in relation to the statutory required contribution	(38,009)	(44,132)	(45,135)	(50,883)
Contribution deficiency (excess)	2,387	(2,764)	(1,061)	(18,278)
Employer's covered-employee payroll	3,475,104	3,526,851	3,789,680	2,775,429
Contributions as a percentage of covered-employee payroll	1.09%	1.25%	1.19%	1.83%

\*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, 2020**

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

	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.243845%	0.301585%	0.340415%	0.343307%	0.364333%	0.267768%
Employer's proportionate share of the net pension liability (asset)	1,658,103	2,932,240	5,471,585	5,793,680	4,270,246	8,424,039
Employer's covered-employee payroll	2,172,351	3,039,267	3,475,104	4,058,943	3,789,680	2,953,801
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	96.71%	157.45%	164.27%	112.68%	285.19%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	71.10%	62.70%	89.76%	112.68%	285.19%

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

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

	2015	2016	2017	2018	2019	2020
Statutorily required contribution	301,756	350,012	370,162	259,768	275,910	209,155
Contributions in relation to the statutory required contribution	(301,756)	(350,012)	(370,162)	(275,630)	(281,898)	(324,360)
Contribution deficiency (excess)	-	-	-	(15,862)	(5,988)	(115,205)
Employer's covered-employee payroll	2,785,187	3,231,792	3,417,942	(3,526,851)	3,789,680	2,953,801
Contributions as a percentage of covered-employee payroll	10.83%	10.83%	10.83%	7.82%	7.44%	10.98%

\*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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 1,084,792	\$ 1,084,792	\$ 1,016,385	\$ (68,407)
Licenses and permits	188,750	188,750	342,058	153,308
Intergovernmental revenues	16,730,525	16,730,525	12,721,782	(4,008,743)
Charges for services	50,050	50,050	197,081	147,031
Fines and forfeitures	87,250	87,250	63,970	(23,280)
Miscellaneous	103,075	103,075	288,480	185,405
Internal services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	18,244,442	18,244,442	14,629,756	(3,614,686)
Expenditures				
General government	4,224,139	4,224,139	3,945,748	(278,391)
Public safety	3,713,361	3,713,361	3,231,778	(481,583)
Public works	3,700	3,700	5,486	1,786
Social and economic services	<u>1,145,500</u>	<u>1,145,500</u>	<u>1,171,689</u>	<u>26,189</u>
Total expenditures	9,086,700	9,086,700	8,354,701	(731,999)
Excess (deficiency) of revenues over expenditures				
Other financing sources (uses)				
Transfers in	7,836,000	7,836,000	9,206,344	1,370,344
Transfers out	(16,281,530)	(16,281,530)	(12,706,938)	3,574,592
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>130,500</u>	<u>130,500</u>
Total other financing sources and uses	<u>(8,445,530)</u>	<u>(8,445,530)</u>	<u>(3,370,094)</u>	<u>5,075,436</u>
Net change in fund balance	<u>\$ 712,212</u>	<u>\$ 712,212</u>	2,904,961	<u>\$ 2,192,749</u>
Fund Balance - beginning			<u>11,605,799</u>	
Fund Balance - ending			<u>\$ 14,510,760</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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental revenues	\$ 4,000,000	\$ 4,000,000	\$ 3,507,088	\$ (492,912)
Expenditures				
Social and economic services	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,754,655</u>	<u>(245,345)</u>
Excess (deficiency) of revenues over expenditures				
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(1,998,352)</u>	<u>1,648</u>
Total other financing sources and uses	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(1,998,352)</u>	<u>1,648</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(245,919)	<u>\$ (245,919)</u>
Fund balance - beginning			<u>4,594,320</u>	
Fund balance - ending			<u>\$ 4,348,401</u>	

**CITY OF WATFORD CITY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**NOTE 1 – OPEB: CHANGES OF BENEFIT TERMS AND ASSUMPTIONS.**

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

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

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

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

**NOTE 2 – PENSION: CHANGES OF BENEFIT TERMS AND ASSUMPTIONS.**

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

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

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

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

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

**Budgetary Information**

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

**CITY OF WATFORD CITY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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**

*Independent Auditor's Report*

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, 2020, 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 March 7, 2022.

***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: 2020-001 and 2020-002.

### ***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 did not disclose an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

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

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

### **Purpose of this Report**

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



Bismarck, North Dakota  
March 7, 2022

**CITY OF WATFORD CITY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**2020-001 Preparation of Financial Statements (Prior Audit Finding)**  
**Material Weakness in Internal Control over Financial Reporting**

Criteria – A good system of internal accounting control contemplates an adequate system for the preparation of generally accepted accounting principles (GAAP) financial statements 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 GAAP financial statements being audited. Schmitz-Holmstrom was requested to draft the financial statements and accompanying notes to the financial statements.

Cause – As a relatively small local government the city has determined it is not cost effective to hire the additional employees needed to prepare their GAAP 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 – Management and those charged with governance should continue their close oversight of the financial reporting process including the GAAP financial statements.

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

**2020-002 Segregation of Duties (Prior Audit Finding)**  
**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 – As a relatively small local government the city has determined it is not cost effective to hire the additional employees needed to properly segregate all internal control related 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 – The City should continue to review accounting functions to determine if additional segregation of duties is feasible.

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

CITY OF WATFORD CITY  
STATUS OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2020

Findings 2019-001 and 2019-002 relating to financial statement preparation and segregation of duties are addressed in the current year Schedule of Findings and Responses (Findings 2020-001 and 2020-002).

The recommendation included in Finding 2019-003 related to continuing disclosures was implemented so this finding has been addressed by the city.





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**Report on Compliance for Each Major Federal Program and Report on  
Internal Control Over Compliance  
in Accordance with the Uniform Guidance**

*Independent Auditor's Report*

The City Council  
City of Watford City

**Report on Compliance for Each Major Federal Program**

We have audited the City of Watford City's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Watford City's major federal program for the year ended December 31, 2020. The City of Watford City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the City of Watford City's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

### **Report on Internal Control over Compliance**

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

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

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

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



Bismarck, North Dakota  
March 7, 2022

**CITY OF WATFORD CITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of the Treasury Passed through the North Dakota Office of Management and Budget COVID-19 - Coronavirus Relief Fund	21.019	Unknown	\$ 2,226,045	\$ 44,834
Total Department of the Treasury			\$ 2,226,045	
United States Department of Homeland Security Passed through North Dakota Department of Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Unknown	48,618	
United States Department of Justice, Office of Justice Programs Violence Against Women Formula Grants	16.588	N/A	20,647	
Police Officer Overtime	16.999	N/A	6,132	
Bulletproof Vest Partnership Program	16.607	N/A	<u>2,121</u>	
Total Office of Justice Programs				28,900
United States Department of Transportation Passed through the North Dakota Department of Transportation Impaired Driving (ID) Enforcement	20.616	PHSPID2110-02-17	7,357	
Occupant Protection (OP) Enforcement	20.616	PHSPOP2105-05-19	5,674	
Underage Drinking (UA) Enforcement	20.616	PHSPID2110-12-13	4,131	
Speed (SC) Enforcement	20.600	PHSPSC2107-04-20	<u>1,357</u>	
Total Department of Transportation				<u>18,518</u>
Total Federal Financial Assistance			<u>\$ 2,322,081</u>	<u>\$ 44,834</u>

See Notes to the Schedule of Expenditures of Federal Awards

**CITY OF WATFORD CITY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Watford City under programs of the federal government for the year ended December 31, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – INDIRECT COST RATE**

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

**CITY OF WATFORD CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Section I: Summary of Auditor's Results**

**Financial Statements**

Type of report the issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> Yes	___ No
Significant deficiency(ies) identified?	___ Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	___ Yes	<u> X </u> No

**Federal Awards**

Internal control over major federal programs:		
Material weakness(es) identified?	___ Yes	<u> X </u> No
Significant deficiency(ies) identified?	___ Yes	<u> X </u> None Reported
Type of auditor's report issued on compliance for major federal programs [ <i>unmodified, qualified, adverse, or disclaimer</i> ]:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	<u> X </u> No
Identification of major federal programs:		
CFDA Number(s) 21.019	Name of Federal Program or Cluster	Coronavirus Relief Fund
Dollar threshold used to distinguish between type A and type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	___ Yes	<u> X </u> No

**Section II: Financial Statement Findings**

**2020-001 Preparation of Financial Statements (Prior Audit Finding)**

Material Weakness in Internal Control over Financial Reporting

Criteria – A good system of internal accounting control contemplates an adequate system for the preparation of generally accepted accounting principles (GAAP) financial statements 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 GAAP financial statements being audited. Schmitz-Holmstrom was requested to draft the financial statements and accompanying notes to the financial statements.

**CITY OF WATFORD CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Cause – As a relatively small local government the city has determined it is not cost effective to hire the additional employees needed to prepare their GAAP 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 – Management and those charged with governance should continue their close oversight of the financial reporting process including the GAAP financial statements.

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

**2020-002 Segregation of Duties (Prior Audit Finding)**

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 – As a relatively small local government the city has determined it is not cost effective to hire the additional employees needed to properly segregate all internal control related 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 – The City should continue to review accounting functions to determine if additional segregation of duties is feasible.

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

**Section III: Federal Awards Findings**

None reported