

**CITY OF BOWMAN
BOWMAN, NORTH DAKOTA**

AUDIT REPORT

**EXAMINATION FOR THE FISCAL
YEAR ENDED DECEMBER 31, 2017**

**JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANT
BEACH, NORTH DAKOTA**

**CITY OF BOWMAN
BOWMAN, NORTH DAKOTA**

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INDEPENDENT AUDITOR'S REPORT

City Commissioners
Bowman, North Dakota 58623

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bowman, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bowman, North Dakota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information such as Management's Discussion and Analysis (omitted), the Budgetary Comparison information, and the schedules relating to pensions on pages 33 – 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bowman's basic financial statements. The

accompanying supplementary information such as the combining and individual nonmajor fund financial statements on pages 39 – 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.


The accompanying supplementary information 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying other information 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 May 17, 2018, on our consideration of the City of Bowman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bowman's internal control over financial reporting and compliance.

Beach, North Dakota
May 17, 2018

James J. Wosepka, PC
By  CPA

CITY OF BOWMAN
STATEMENT OF NET POSITION
December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,974,659	\$ 2,049,125	\$ 7,023,784
Taxes/assessments receivable	8,055	-	8,055
Accounts/other receivables	508	80,299	80,807
Due from other governments	132,412	-	132,412
Prepaid expense	11,799	6,661	18,460
Capital assets not being depreciated			
Land	196,340	25,180	221,520
Capital assets being depreciated (net of accumulated depreciation)	2,706,802	991,805	3,698,607
Total Assets	8,030,575	3,153,070	11,183,645
DEFERRED OUTFLOWS OF RESOURCES			
	277,034	-	277,034
LIABILITIES			
Accounts payable and other current liabilities	4,471	8,657	13,128
Noncurrent liabilities:			
Due within one year	100,000	25,000	125,000
Due in more than one year	687,500	64,477	751,977
Total Liabilities	791,971	98,134	890,105
DEFERRED INFLOWS OF RESOURCES			
	67,977	-	67,977
NET POSITION			
Net investment in capital assets	2,703,142	961,985	3,665,127
Restricted for:			
Bond Indenture Requirements	50,000	55,000	105,000
Public Works	80,127	-	80,127
Prepaid Expenditures	11,799	6,661	18,460
Unrestricted	4,602,593	2,031,290	6,633,883
Total Net Position	\$ 7,447,661	\$ 3,054,936	\$ 10,502,597

See accompanying notes to financial statements.

**CITY OF BOWMAN
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for		Primary Government		
		Services, Fines, Forfeitures, etc.	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 293,330	\$ -	\$ -	(293,330)	\$ -	\$ (293,330)
Public safety	394,810	707	2,375	(391,728)	-	(391,728)
Public works	1,309,076	27,462	138,212	(1,143,402)	-	(1,143,402)
Public health	359,800	-	301,851	(57,949)	-	(57,949)
Culture and recreation	234,811	-	86,779	(148,032)	-	(148,032)
Interest on long-term debt	4,004	-	-	(4,004)	-	(4,004)
Miscellaneous	11,107	-	-	(11,107)	-	(11,107)
Unallocated costs	137,904	-	-	(137,904)	-	(137,904)
Total governmental activities	2,744,842	28,169	529,217	(2,187,456)		(2,187,456)
Business-type activities:						
Water	417,143	411,105	-	-	(6,038)	(6,038)
Sewer	66,394	108,812	-	-	42,418	42,418
Vector Control	3,366	4,969	-	-	1,603	1,603
Garbage	527,197	568,707	-	-	41,510	41,510
Total business-type activities	1,014,100	1,093,593	-	-	79,493	79,493
Total primary government	\$ 3,758,942	\$ 1,121,762	\$ 529,217	(2,187,456)	79,493	(2,107,963)
General revenues:						
Property taxes				384,813	-	384,813
Licenses and permits				24,802	-	24,802
Unrestricted Federal/State shared revenues				1,154,034	-	1,154,034
Unrestricted investment earnings				67,092	-	67,092
Miscellaneous				11,706	728	12,434
Transfers				58,423	(58,423)	-
Total general revenues and transfers				1,700,870	(57,695)	1,643,175
Change in net assets						
				(486,586)	21,798	(464,788)
Total net position - January 1, 2017				7,934,247	3,033,138	10,967,385
Total net position - December 31, 2017				\$ 7,447,661	\$ 3,054,936	\$ 10,502,597

See accompanying notes to financial statements.

**CITY OF BOWMAN
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

Description	General	Major Funds			Other Governmental Funds	Total Governmental Funds
		City Sales Tax	Main St Water Main	Gateway Ind Park		
ASSETS						
Cash and cash equivalents	\$ 1,952,461	\$ 148,298	\$ 11,902	\$ 1,767,330	\$ 1,094,668	\$ 4,974,659
Tax/assessment receivable	8,055	-	-	-	-	8,055
Accounts/other receivables	508	-	-	-	-	508
Due from other governments	132,412	-	-	-	-	132,412
Prepaid expense	11,799	-	-	-	-	11,799
Total Assets	2,105,235	148,298	11,902	1,767,330	1,094,668	5,127,433
LIABILITIES						
Accounts payable	1,910	-	-	-	2,561	4,471
Total Liabilities	1,910	-	-	-	2,561	4,471
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	8,055	-	-	-	-	8,055
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	11,799	-	-	-	130,127	141,926
Committed	-	148,298	-	-	130,568	278,866
Assigned	-	-	11,902	1,767,330	831,412	2,610,644
Unassigned	2,083,471	-	-	-	-	2,083,471
Total fund balances	2,095,270	148,298	11,902	1,767,330	1,092,107	5,114,907
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,105,235	\$ 148,298	\$ 11,902	\$ 1,767,330	\$ 1,094,668	

Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,903,142
Certain property tax collections are not available to pay current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	(59,922)
Long-term liabilities, including bonds payable and pensions payable, are not due and payable in the current period and therefore are not reported in the funds.	(510,466)
Net position of governmental funds	\$ 7,447,661

See accompanying notes to financial statements.

CITY OF BOWMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2017

Description	General	Major Funds			Other Governmental Funds	Total Governmental Funds
		City Sales Tax	Main St Water Main	Gateway Ind Park		
REVENUES						
Taxes/assessments	\$ 383,585	\$ -	\$ -	\$ -	\$ -	\$ 383,585
Licenses and permits	14,802	-	-	-	10,000	24,802
Intergovernmental revenues	1,164,561	301,851	-	-	216,839	1,683,251
Charges for services	27,462	-	-	-	-	27,462
Fines and forfeitures	707	-	-	-	-	707
Miscellaneous	11,619	-	-	-	87	11,706
Investment and royalty earnings	67,092	-	-	-	-	67,092
Total Revenues	1,669,828	301,851	-	-	226,926	2,198,605
EXPENDITURES						
Current:						
General government	491,614	-	-	-	1,500	493,114
Public safety	394,810	-	-	-	-	394,810
Public works	181,202	-	908,960	12,640	206,274	1,309,076
Public health	-	359,800	-	-	-	359,800
Culture and recreation	165,654	-	-	-	69,157	234,811
Debt service:						
Principal	-	-	-	-	100,000	100,000
Interest	-	-	-	-	4,004	4,004
Capital outlay	-	-	-	-	20,000	20,000
Miscellaneous	-	-	-	-	11,107	11,107
Total Expenditures	1,233,280	359,800	908,960	12,640	412,042	2,926,722
Excess of revenues (under) expenditures	436,548	(57,949)	(908,960)	(12,640)	(185,116)	(728,117)
OTHER FINANCING SOURCES (USES):						
Sale of capital assets	-	-	-	-	-	-
Transfers in	273	-	920,862	1,760,000	169,533	2,850,668
Transfers out	(2,791,972)	-	-	-	(273)	(2,792,245)
Total other financing sources (uses)	(2,791,699)	-	920,862	1,760,000	169,260	58,423
Net change in fund balances	(2,355,151)	(57,949)	11,902	1,747,360	(15,856)	(669,694)
Fund balances - January 1, 2017	4,450,421	206,247	-	19,970	1,107,963	5,784,601
Fund balances - December 31, 2017	\$ 2,095,270	\$ 148,298	\$ 11,902	\$ 1,767,330	\$ 1,092,107	\$ 5,114,907

See accompanying notes to financial statements.

CITY OF BOWMAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2017

Net change in fund balances - total governmental funds (page 8)	<u>\$ (669,694)</u>
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	30,000
Depreciation expense	<u>(137,904)</u>
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
Gain (loss) on the disposal of capital assets	-
Proceeds from the sale of capital assets	<u>-</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable tax revenue	<u>1,228</u>
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets:	
Long-term bond principal payments	<u>100,000</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Accrued compensated absences	1,933
Change in pension liability	<u>187,851</u>
Change in Net Position in Governmental Activities	<u><u>\$ (486,586)</u></u>

See accompanying notes to financial statements.

**CITY OF BOWMAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017**

Description	Business-type Activities				
	Major Enterprise Funds			Nonmajor Enterprise Funds	Totals
	Water	Water Building	Garbage		
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 564,577	\$ 441,050	\$ 233,277	\$ 810,221	\$ 2,049,125
Accounts/other receivables	20,401	-	46,524	13,374	80,299
Prepaid expenses	-	-	6,661	-	6,661
Total Current Assets	584,978	441,050	286,462	823,595	2,136,085
Noncurrent Assets					
Capital assets:					
Land	15,180	-	10,000	-	25,180
Buildings	7,980	-	82,228	-	90,208
Improvements other than buildings	396,000	-	-	135,700	531,700
Machinery and equipment	56,294	-	304,304	534,939	895,537
Infrastructure (utility systems) and intangibles	342,773	-	127,383	-	470,156
Less: accumulated depreciation	(290,694)	-	(430,225)	(274,877)	(995,796)
Capital assets - net of accumulated depreciation	527,533	-	93,690	395,762	1,016,985
Total Noncurrent Assets	527,533	-	93,690	395,762	1,016,985
Total Assets	1,112,511	441,050	380,152	1,219,357	3,153,070
LIABILITIES					
Current Liabilities					
Accounts payable	937	-	7,720	-	8,657
Total Current Liabilities	937	-	7,720	-	8,657
Noncurrent Liabilities					
Bonds/Loans payable	-	-	55,000	-	55,000
Compensated absences	11,108	-	20,011	3,358	34,477
Total Noncurrent Liabilities	11,108	-	75,011	3,358	89,477
Total Liabilities	12,045	-	82,731	3,358	98,134
NET POSITION					
Net investment in capital assets	527,533	-	38,690	395,762	961,985
Unrestricted	572,933	441,050	258,731	820,237	2,092,951
Total Net Position	\$ 1,100,466	\$ 441,050	\$ 297,421	\$ 1,215,999	\$ 3,054,936

See accompanying notes to financial statements.

CITY OF BOWMAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2017

Description	Business-type Activities				
	Major Enterprise Funds			Nonmajor Enterprise Funds	Totals
	Water	Water Building	Garbage		
OPERATING REVENUES					
Charges for services	\$ 382,716	\$ -	\$ 568,707	\$ 133,931	\$ 1,085,354
Miscellaneous revenues	-	8,239	-	-	8,239
Total Operating Revenues	382,716	8,239	568,707	133,931	1,093,593
OPERATING EXPENSES					
Personal services	144,244	-	323,147	49,284	516,675
Supplies	21,231	141,393	68,226	8,460	239,310
Building materials	25,128	-	13,089	24,801	63,018
Purchased services	56,143	-	61,766	1,212	119,121
Depreciation	7,623	-	1,645	62,853	72,121
Total Operating Expenses	254,369	141,393	467,873	146,610	1,010,245
Operating Income (Loss)	128,347	(133,154)	100,834	(12,679)	83,348
NONOPERATING REVENUES (EXPENSES)					
Gain on sale of assets	-	-	-	728	728
Debt service interest expense	-	-	(3,855)	-	(3,855)
Total Non-Operating Revenues (Expenses)	-	-	(3,855)	728	(3,127)
Income (Loss) before contributions and transfers	128,347	(133,154)	96,979	(11,951)	80,221
Transfers in (out)	(97,000)	26,577	(86,500)	98,500	(58,423)
Change in net assets	31,347	(106,577)	10,479	86,549	21,798
Total net position - January 1, 2017	1,069,119	547,627	286,942	1,129,450	3,033,138
Total net position - December 31, 2017	\$ 1,100,466	\$ 441,050	\$ 297,421	\$ 1,215,999	\$ 3,054,936

See accompanying notes to financial statements.

**CITY OF BOWMAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2017**

Description	Business-type Activities				
	Major Enterprise Funds			Nonmajor Enterprise Funds	Totals
	Water	Water Building	Garbage		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 387,327	\$ 8,239	\$ 581,186	\$ 133,773	\$ 1,110,525
Cash paid to suppliers	(106,583)	(141,393)	(148,123)	(30,158)	(426,257)
Cash paid to employees	(143,214)	-	(317,497)	(50,734)	(511,445)
Net cash provided (used) by operating activities	137,530	(133,154)	115,566	52,881	172,823
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from (to) other funds	(97,000)	26,577	(86,500)	98,500	(58,423)
Net cash provided (used) by noncapital financing activities	(97,000)	26,577	(86,500)	98,500	(58,423)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	-	-	(50,000)	(50,000)
Principal paid on debt	-	-	(25,000)	-	(25,000)
Interest paid on debt	-	-	(3,855)	-	(3,855)
Proceeds from sale of capital assets	-	-	-	728	728
Net cash provided (used) by capital and related financing activities	-	-	(28,855)	(49,272)	(78,127)
Net increase (decrease) in cash and cash equivalents	40,530	(106,577)	211	102,109	36,273
Cash and cash equivalents - January 1, 2017	524,047	547,627	233,066	708,112	2,012,852
Cash and cash equivalents - December 31, 2017	\$ 564,577	\$ 441,050	\$ 233,277	\$ 810,221	\$ 2,049,125
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 128,347	\$ (133,154)	\$ 100,834	\$ (6,012)	\$ 88,015
Depreciation expense	7,623	-	1,645	62,853	72,121
(Increase) decrease in accounts receivable	4,611	-	12,479	(158)	15,932
(Increase) decrease in prepaid items	-	-	(4,719)	-	(4,719)
Increase (decrease) in accounts payable	(4,081)	-	(323)	(352)	(4,756)
Increase (decrease) in compensated absences payable	1,030	-	5,650	(1,450)	5,230
Total adjustments	9,183	-	14,732	60,893	84,808
Net cash provided (used) by operating activities	\$ 137,530	\$ (133,154)	\$ 115,566	\$ 52,881	\$ 172,823

See accompanying notes to financial statements.

**CITY OF BOWMAN
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2017**

Description	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 199,918
Total Assets	\$ 199,918
 LIABILITIES	
Warrants payable	\$ 198,299
Due to other governments	1,619
Total Liabilities	\$ 199,918

See accompanying notes to financial statements.

**CITY OF BOWMAN
BOWMAN, NORTH DAKOTA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies

The financial statements of the City of Bowman, North Dakota (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The City's significant accounting policies are described below.

Reporting Entity

The City is governed by an elected Mayor and City Commission. The City's basic financial statements include the accounts of all City operations. The criteria for including organizations within the City's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

There are no component units to be included with the City as reporting entities.

Basic Financial Statements

In accordance with GASB Statement No. 34 (*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*), the basic financial statements include both government-wide and fund financial statements.

The Government-wide financial statements (Statement of Net Position and Statement of Activities) report on the City as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The "doubling up" effect of internal service fund activity

1. **Summary of Significant Accounting Policies – cont.**
Basic Financial Statements – cont.

has been eliminated from the government-wide financial statements with the expenses shown in the various functions and programs on the Statement of Activities.

The Government-wide Statement of Net Position reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equal net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position are those with constraints placed on their use by either; 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position not otherwise classified as restricted, is shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use, or directly benefit from goods, services, or privileges provided by a particular function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income, and other revenues, not identifiable with particular functions or programs, are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

1. **Summary of Significant Accounting Policies – cont.**
Basic Financial Statements – cont.

The City reports the following major governmental funds:

General Fund – This fund reports the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

City Sales Tax Fund - This fund is used for health care within the City. The City has a 1% sales tax that provides the revenue. Funds are disbursed upon request from a health care facility.

Main Street Water Main Replacement Fund – This fund is used to track the Main Street Water Main Replacement Project.

Gateway Industrial Park Fund – This fund is used to track the Gateway Industrial Park Project.

The Government reports the following major proprietary funds:

Water Utility Fund - This fund is used to account for the operating and non-operating revenues and expenses of the public water utility system. The fund is maintained on the full accrual basis of accounting.

Water Building Fund – This fund is used for water related capital projects.

Garbage Fund - This fund accounts for the operating of refuse pickup and disposal.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financing source.

1. **Summary of Significant Accounting Policies – cont.**
Measurement Focus and Basis of Accounting – cont.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary funds financial statements. The net costs of the internal service funds are also partially allocated to the business-type activities column on the government-wide financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues

1. **Summary of Significant Accounting Policies – cont.**
Measurement Focus and Basis of Accounting – cont.

and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Fiduciary funds account for assets held by the City in a trustee or agency capacity on behalf of others and therefore, are not available to support City programs. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City programs.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 with a useful life of one year or more.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant, and equipment of the primary government as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Land improvements	40
Public domain infrastructure	40
System infrastructure	40-100
Vehicles	5-20
Equipment other than vehicles	8-20
Office equipment	5
Computer equipment	5

No provision is being made to capitalize interest on debt to finance construction of assets.

Taxes and Assessments

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

1. **Summary of Significant Accounting Policies – cont.**

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained. Accounts receivable are reported as net of revenues collected in advance.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained. Inventories were not, however, considered material.

Net Position

In the government-wide and proprietary fund statements, net position is reported in three components - net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or notes issued to acquire, construct, or improve those assets. Restricted net position is reported when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by enabling legislation. Unrestricted net position is net position that does not meet the definition of either of the first two categories of net position.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for disbursements initially made from it that are properly applicable to another fund are recorded as disbursements in the reimbursing.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Encumbrances

Encumbrance accounting is used for the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

Fund Balances – Governmental Funds

As of December 31, 2017, fund balances of the governmental funds are classified follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

1. **Summary of Significant Accounting Policies – cont.**
Fund Balances – Governmental Funds – cont.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commission. The City Commission is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Commission.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the City Commission may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

As of December 31, 2017, fund balances are composed of the following:

	General Fund	City Sales Tax	Main St Water Main	Gateway Ind. Park	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:						
General Government	11,799	-	-	-	-	11,799
Muni Hwy	-	-	-	-	18,761	18,761
Road & Bridge	-	-	-	-	61,366	61,366
Bond Issue	-	-	-	-	50,000	50,000
Committed:						
Rest and Lodging	-	-	-	-	78,120	78,120
City Sales Tax	-	148,298	-	-	-	148,298
Occupancy Tax	-	-	-	-	52,448	52,448
Assigned:						
General Government	-	-	-	-	34,373	34,373
Future Capital Projects	-	-	11,902	1,767,330	690,297	2,469,529
Bond Payment	-	-	-	-	106,742	106,742
Unassigned Funds	<u>2,083,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,083,471</u>
Total fund balances	<u>\$ 2,095,270</u>	<u>\$ 148,298</u>	<u>\$ 11,902</u>	<u>\$ 1,767,330</u>	<u>\$ 1,092,107</u>	<u>\$ 5,114,907</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Commission has provided otherwise in its commitment or assignment actions.

1. **Summary of Significant Accounting Policies – cont.**

Deferred Outflows/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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) 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.

2. **Cash and Cash Equivalents**

The City maintains a cash pool for all funds under the control of the City Auditor. Cash includes cash and cash equivalents of checking and savings deposits which are highly liquid or have maturity dates of three months or less when purchased. The composition of cash on December 31, 2017 was as follows:

Cash in Banks	
Demand and Savings Deposits	\$ 7,023,784
Total	<u>\$ 7,023,784</u>

Deposits - At year-end, the carrying amount of the City's deposits was \$7,023,784 and the bank balance was \$7,223,649. These deposits include demand and savings deposits. Of the bank balance, \$276,146 was covered by Federal Depository Insurance, the balance \$6,947,503 was covered by pledged securities.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party.

North Dakota statutes require that the City obtain pledged securities for the uninsured portion of the deposits equal to 110% of such deposits. The amount of collateral held for City deposits at December 31, 2017 exceeded the amount required by state statutes.

State statutes authorize local governments to invest 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 above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) Obligations of the state.

3. **Accounts Receivable**

Accounts receivable consist of billings for December and accounts delinquent at December 31.

4. **Taxes Receivable**

Taxes receivable consist of delinquent uncollected taxes at December 31.

Property tax revenue is recognized in compliance with the National Council on Government Accounting (NCGA) Interpretation 3, Revenue Recognition-Property Taxes. This interpretation states that property tax revenue is recorded when it becomes available. Available means then due, or past due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within the time period, taxes receivable are recorded as unavailable revenue.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the County and usually remitted monthly to the City.

5. **Due From County Treasurer**

The amount due from the County Treasurer consists of the cash on hand for taxes and special assessments collected but not remitted to the City of Bowman at December 31.

6. **Risk Management**

The City of Bowman participates in the North Dakota Insurance Reserve Fund, North Dakota Fire and Tornado Fund, and the North Dakota Worker's Compensation Bureau to control their risk of loss. There have been no settled claims that exceeded the insurance coverage in any of the past three fiscal years.

7. **Interfund Transfers**

Individual fund operating transfers for 2017 were as follows:

<u>FUND</u>	<u>IN</u>	<u>OUT</u>
General Fund	\$ 273	\$ 2,791,972
Main Street Water Main	920,862	-
Gateway Industrial Park	1,760,000	-
Municipal Highway	32,800	-
Abandoned Property	-	273
Road & Bridge	7,333	-
Bond Payment	104,400	-
Street Equipment	5,000	-
Street Blade	5,000	-
Street Sweeper	5,000	-
Street Loader	10,000	-
Water Building	111,350	84,773
Garbage Equipment	86,500	-
New Pump Replacement	10,000	-
Sewer Equipment	45,950	-
Tower Maintenance	2,000	-
Sewer Building	32,500	-
Water	-	97,000
Sewer	-	32,500
Garbage	-	86,500
Sewer Machine	-	45,950
	<u>\$ 3,138,968</u>	<u>\$ 3,138,968</u>

All transfers are normal operating transfers.

8. **Amounts Due To and From Other Funds and Governments, Interfund Loans, and Advances Receivable**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

9. Capital Assets

Capital asset activity for the fiscal year ended December 31, 2017.

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated	-			
Land	\$ 196,340	\$ -	\$ -	\$ 196,340
Total capital assets not being depreciated	<u>196,340</u>	<u>-</u>	<u>-</u>	<u>196,340</u>
Capital assets being depreciated				
Buildings	1,910,669	-	-	1,910,669
Improvements other than buildings	906,852	-	-	906,852
Machinery and equipment	1,012,288	46,904	50,710	1,008,482
Infrastructure	577,751	-	-	577,751
Total capital assets being depreciated	<u>4,407,560</u>	<u>46,904</u>	<u>50,710</u>	<u>4,403,754</u>
Less accumulated depreciation for:				
Buildings	(524,731)	(38,902)	-	(563,633)
Improvements other than buildings	(308,278)	(33,637)	-	(341,915)
Machinery and equipment	(759,846)	(65,365)	33,807	(791,404)
Total accumulated depreciation	<u>(1,592,855)</u>	<u>\$ (137,904)</u>	<u>\$ 33,807</u>	<u>(1,696,952)</u>
Net capital assets being depreciated	<u>2,814,705</u>			<u>2,706,802</u>
Governmental activities capital assets net	<u>\$ 3,011,045</u>			<u>\$ 2,903,142</u>

All depreciation expense is unallocated.

Business-type activities:

Capital assets not being depreciated				
Land	\$ 25,180	\$ -	\$ -	\$ 25,180
Total capital assets not being depreciated	<u>25,180</u>	<u>-</u>	<u>-</u>	<u>25,180</u>
Capital assets being depreciated (amortized)				
Buildings	90,208	-	-	90,208
Machinery and equipment	855,537	50,000	10,000	895,537
Utility plant	531,700	-	-	531,700
Intangibles	105,000	-	-	105,000
Infrastructure	365,156	-	-	365,156
Total capital assets being depreciated	<u>1,947,601</u>	<u>50,000</u>	<u>10,000</u>	<u>1,987,601</u>
Less accumulated depreciation and amortization for:				
Buildings	(20,633)	(1,804)	-	(22,437)
Machinery and equipment	(520,193)	(63,678)	5,333	(578,538)
Utility plant	(283,182)	(6,639)	-	(289,821)
Intangibles	(105,000)	-	-	(105,000)
Total accumulated depreciation	<u>(929,008)</u>	<u>(72,121)</u>	<u>5,333</u>	<u>(995,796)</u>
Net capital assets being depreciated	<u>1,018,593</u>			<u>991,805</u>
Business-type activities capital assets net	<u>\$ 1,043,773</u>			<u>\$ 1,016,985</u>

Depreciation and amortization expense is allocated to:

Water	\$ 11,909
Garbage	52,443
Sewer	6,888
Vector	881
	<u>\$ 72,121</u>

10. **Pension Plan**
Notes to the Financial Statements for the Year Ended December 31, 2017

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public 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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest

10. **Pension Plan – cont.**

36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

10. **Pension Plan – cont.**

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member’s account balance includes the vested employer contributions equal to the member’s contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

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

At 12/31/2017, the Employer reported a liability of \$554,712 for its proportionate share of the net pension liability. The net pension liability was measured as of 06/30/2016, 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 06/30/2016, the Employer’s proportion was .056917% which was a decrease of .006617 from its proportion measured as of 06/30/2015.

For the year ended 12/31/2017, the Employer recognized pension expense of \$75,846. At 12/31/2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,333	\$ 5,136
Changes of assumptions	51,137	27,558
Net difference between projected and actual earnings on pension plan investments	77,390	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,764	35,283
Employer contributions subsequent to the measurement date	102,410	-
Total	\$ 277,034	\$ 67,977

10. **Pension Plan – cont.**

\$277,034 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 12/31/2018.

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

Year ended June 30:

2017	\$ 20,994
2018	20,994
2019	37,877
2020	24,890
2021	1,892
Thereafter	-

Actuarial assumptions. The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

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

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

10. **Pension Plan – cont.**

rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 786,848	\$ 554,712	\$ 359,125

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

11. Long-term Debt

	<u>12-31-16</u>	Issued (Retired)	<u>12-31-17</u>
Refuse Disposal Revenue Refunding Bond of 2009, due in annual principal payments of \$20,000 to \$30,000, and semi-annual interest payments at a rate of 2.15% to 4%. Final payment due May 2019.	\$ 80,000	\$ (25,000)	\$ 55,000
Oil and Gas Tax Revenue Refunding Bond of 2014, due in annual principal payments of \$100,000 with interest at 1.10% due semiannually. Final payment due May 2019.	\$ <u>300,000</u>	\$ <u>(100,000)</u>	<u>200,000</u>
	\$ <u>380,000</u>	\$ <u>(125,000)</u>	<u>255,000</u>
Due in current year			<u>125,000</u>
Long-term			\$ <u>130,000</u>

ANNUAL REQUIREMENT TO REDUCE GENERAL OBLIGATION BONDS DEBT

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,000	\$ 1,650	\$ 101,650
2019	<u>100,000</u>	<u>550</u>	<u>100,550</u>
Total	\$ <u>200,000</u>	\$ <u>2,200</u>	\$ <u>202,200</u>

The principal and interest of the Oil and Gas Tax Bond is being paid by the Bond Payment Fund.

ANNUAL REQUIREMENT TO REDUCE DEBT IN GARBAGE FUND

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,000	\$ 1,700	\$ 26,700
2019	<u>30,000</u>	<u>600</u>	<u>30,600</u>
Total	\$ <u>55,000</u>	\$ <u>2,300</u>	\$ <u>57,300</u>

All principal and interest for the Refuse Bond and Capital Lease is being paid by the Garbage Fund.

12. Compensated Absences

The City's policy on vacation days is that an employee earns vacation days during each 12 month period beginning with the anniversary date of employment. A maximum of 12 vacation days may be carried from one year to the next.

Sick leave is also accrued with a maximum of 80 days for full time employees and 60 days for part time employees to be carried forward. Sick leave is not paid upon termination of employment and therefore, not recorded as a liability.

12. **Compensated Absences – cont.**

Current year activity with compensated absences is as follows:

Prior Year Balance	Earned	Used	Current Year Balance
\$ <u>64,028</u>	\$ <u>3,236</u>	\$ <u>-</u>	\$ <u>67,264</u>

Of the \$67,264, \$32,787 is Governmental and \$34,477 is Business-type Activities.

13. **Subsequent Events**

The City has awarded three contracts totaling \$1,611,104 in 2018. None of the work has started. The contracts will be paid by the Gateway Industrial Park Fund.

Subsequent events have been evaluated through the date of these financial statements.

REQUIRED
SUPPLEMENTARY INFORMATION

CITY OF BOWMAN
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended December 31, 2017

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes/Special Assessments	\$ 338,763	\$ 338,763	\$ 383,585	\$ 44,822
Licenses and Permits	8,250	8,250	14,802	6,552
Intergovernmental Revenue	1,051,550	1,051,550	1,164,561	113,011
Charges for Service	24,000	24,000	27,462	3,462
Fines and Forfeitures	1,000	1,000	707	(293)
Miscellaneous Revenues	11,500	11,500	11,619	119
Investment and Royalty Earnings	35,000	35,000	67,092	32,092
Total Revenues	<u>1,470,063</u>	<u>1,470,063</u>	<u>1,669,828</u>	<u>199,765</u>
Expenditures:				
Current:				
General Government	472,051	510,196	491,614	18,582
Public Safety	423,621	423,621	394,810	28,811
Public Works	232,601	245,236	162,099	83,137
Public Health	-	-	-	-
Social and Economic	-	-	-	-
Culture and Recreation	167,670	167,670	165,654	2,016
Housing and Community Development	-	-	-	-
Miscellaneous	16,000	16,050	19,103	(3,053)
Total Expenditures	<u>1,311,943</u>	<u>1,362,773</u>	<u>1,233,280</u>	<u>129,493</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>158,120</u>	<u>107,290</u>	<u>436,548</u>	<u>329,258</u>
Other Financing Sources (Uses):				
Sale of Assets	-	-	-	-
Operating Transfers In	-	-	273	273
Operating Transfers (Out)	(2,758,083)	(2,797,883)	(2,791,972)	5,911
Total Other Financing Sources (Uses)	<u>(2,758,083)</u>	<u>(2,797,883)</u>	<u>(2,791,699)</u>	<u>6,184</u>
Excess (Deficiency) Of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (2,599,963)</u>	<u>\$ (2,690,593)</u>	<u>(2,355,151)</u>	<u>\$ 335,442</u>
Fund Balances - January 1, 2017			<u>4,450,421</u>	
Fund Balances - December 31, 2017			<u>\$ 2,095,270</u>	

CITY OF BOWMAN
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
City Sales Tax
Year Ended December 31, 2017

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	325,000	325,000	301,851	(23,149)
Charges for Service	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	-	-	-	-
Total Revenues	<u>325,000</u>	<u>325,000</u>	<u>301,851</u>	<u>(23,149)</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Health	325,000	359,800	359,800	-
Public Works	-	-	-	-
Social and Economic	-	-	-	-
Culture and Recreation	-	-	-	-
Total Expenditures	<u>325,000</u>	<u>359,800</u>	<u>359,800</u>	<u>-</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>-</u>	<u>(34,800)</u>	<u>(57,949)</u>	<u>(23,149)</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ (34,800)</u>	<u>(57,949)</u>	<u>\$ (23,149)</u>
Fund Balances - January 1, 2017			<u>206,247</u>	
Fund Balances - December 31, 2017			<u>\$ 148,298</u>	

CITY OF BOWMAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

Budgets

Section 40-40-10, NDCC requires that immediately after the completion of the final budget and the adoption of the annual tax levy and not later than October 10, the city Auditor shall send to the County Auditor a certified copy of the levy and a certified copy of the final budget.

Budgets are prepared for the General Fund, Special Revenue Funds, and the Debt Service Funds on a cash basis which is not materially different from the modified accrual basis. Annual appropriations lapse at year end.

Budget Amendment

By an approved motion of the City Commission, the expense budgets for the following funds were amended:

	<u>Original</u>	<u>Final</u>	<u>Change</u>
Governmental Funds			
General	\$ 4,070,026	\$ 4,160,656	\$ 90,630
Municipal HWY	154,473	156,895	2,422
Street Loader	-	20,000	20,000
Abandoned Property	-	273	273
City Sales Tax	325,000	359,800	34,800
Occupancy	32,000	50,000	18,000
Rest & Lodging	60,000	72,100	12,100
Police Dept. Grants	-	2,375	2,375
Police Capitol	-	3,633	3,633
Sidewalk	-	2,561	2,561
Alcohol Education & Awareness	6,500	9,000	2,500
Main St Water Main	-	922,502	922,502
City Maintenance	-	1,100	1,100

Surge Funds

The City created a separate fund for the surge monies; in these financials, this fund is combined with the General Fund. Below is a summary of just the Surge Fund activity:

	<u>Budget</u>	<u>Actual</u>
Cash, January 1, 2017	\$ -	\$ 2,626,508
Revenue/Transfers	-	10,526
Expenses/Transfers	2,640,945	<u>2,637,034</u>
Cash, December 31, 2017		<u><u>\$ -</u></u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – cont.

ND Public Employees Retirement System

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

	2015	2016	2017
Employer’s proportion of the net pension liability (asset)	0.055481%	0.063534%	0.056917%
Employer’s proportionate share of the net pension liability (asset)	\$352,150	\$432,020	\$554,712
Employer’s covered-employee payroll	\$467,360	\$566,010	\$573,592
Employer’s proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%	76.33%	103.4%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%	93.62%

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

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

	2015	2016	2017
Statutorily required contribution	\$33,276	\$42,993	\$41,527
Contributions in relation to the statutorily required contribution	(\$33,276)	(\$40,300)	\$47,626
Contribution deficiency (excess)	-	2,693	(\$6,099)
Employer’s covered-employee payroll	\$467,360	\$566,010	\$573,592
Contributions as a percentage of covered-employee payroll	7.12%	7.60%	8.30%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – cont.

ND Public Employees Retirement System

Changes of assumptions.

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

SUPPLEMENTARY INFORMATION

CITY OF BOWMAN
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Non-Major Special Revenue Funds
Year Ended December 31, 2017

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	10,000	10,000
Intergovernmental Revenue	237,740	237,740	214,464	(23,276)
Charges for Services	-	-	-	-
Miscellaneous Revenues	4,500	4,500	-	(4,500)
Investment and Royalty Earnings	-	-	-	-
Total Revenues	<u>242,240</u>	<u>242,240</u>	<u>224,464</u>	<u>(17,776)</u>
Expenditures:				
Current:				
General Government	4,000	4,000	1,500	2,500
Public Safety	-	-	-	-
Public Works	231,895	254,956	206,274	48,682
Public Health	30,000	30,000	-	30,000
Culture and Recreation	66,500	81,100	69,157	11,943
Miscellaneous	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>332,395</u>	<u>370,056</u>	<u>276,931</u>	<u>93,125</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(90,155)</u>	<u>(127,816)</u>	<u>(52,467)</u>	<u>75,349</u>
Other Financing Sources (Uses):				
Operating Transfers In	48,533	48,533	40,133	(8,400)
Operating Transfers (Out)	-	(273)	(273)	-
Total Other Financing Sources	<u>48,533</u>	<u>48,260</u>	<u>39,860</u>	<u>(8,400)</u>
Excess (Deficiency) Of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (41,622)</u>	<u>\$ (79,556)</u>	<u>(12,607)</u>	<u>\$ 66,949</u>
Fund Balances - January 1, 2017			<u>258,920</u>	
Fund Balances - December 31, 2017			<u>\$ 246,313</u>	

CITY OF BOWMAN
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Capital Project Funds
Year Ended December 31, 2017

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	2,375	2,375
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	87	87
Investment and Royalty Earnings	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>2,462</u>	<u>2,462</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Miscellaneous	9,000	16,108	11,107	5,001
Capital Outlay	1,760,000	1,780,000	941,600	838,400
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>1,769,000</u>	<u>1,796,108</u>	<u>952,707</u>	<u>843,401</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(1,769,000)</u>	<u>(1,796,108)</u>	<u>(950,245)</u>	<u>845,863</u>
Other Financing Sources (Uses):				
Sale of Assets	-	-	-	-
Operating Transfers In	1,780,000	1,780,000	2,705,862	925,862
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>1,780,000</u>	<u>1,780,000</u>	<u>2,705,862</u>	<u>925,862</u>
Excess (Deficiency) Of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ 11,000</u>	<u>\$ (16,108)</u>	1,755,617	<u>\$ 1,771,725</u>
Fund Balances - January 1, 2017			712,667	
Fund Balances - December 31, 2017			<u>\$ 2,468,284</u>	

CITY OF BOWMAN
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Debt Service Funds
Year Ended December 31, 2017

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	-	-
Investment and Royalty Earnings	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Miscellaneous	1,650	1,650	1,254	396
Capital Outlay	-	-	-	-
Debt Service:				
Principal	100,000	100,000	100,000	-
Interest	2,750	2,750	2,750	-
Total Expenditures	<u>104,400</u>	<u>104,400</u>	<u>104,004</u>	<u>396</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(104,400)</u>	<u>(104,400)</u>	<u>(104,004)</u>	<u>396</u>
Other Financing Sources (Uses):				
Bond Proceeds	-	-	-	-
Operating Transfers In	104,400	104,400	104,400	-
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>104,400</u>	<u>104,400</u>	<u>104,400</u>	<u>-</u>
Excess (Deficiency) Of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	396	<u>\$ 396</u>
Fund Balances - January 1, 2017			<u>156,346</u>	
Fund Balances - December 31, 2017			<u>\$ 156,742</u>	



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

To the City Commission
Bowman, North Dakota 58623

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bowman, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Bowman's basic financial statements, and have issued our report thereon dated May 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bowman's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Bowman's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bowman'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bowman's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

James J. Wosepka, PC

By  CPA

Beach, North Dakota
May 17, 2018