



Financial Statements
December 31, 2015
City of Watford City

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Mayor

Brent Sanford

City Council

Council President

Justin Voll

Council Vice President

Doug Bolken

Council Person

Aaron Gravos

Council Person

Marty Mulder

Council Person

Philip Riely

Council Person

Steve Sanford

City Officials

Auditor

Peni Peterson

Finance Director

Kelcee Wright

City Planner

Curt Moen

Public Works Superintendent

Justin Smith

Chief of Police

Art Walgren

Attorneys

McKennett Law Firm



Independent Auditor's Report

City Council
City of Watford City
Watford City, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watford City, North Dakota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watford City, North Dakota, as of December 31, 2015, 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.

Restatement and Adoption of New Standard

As discussed in Note 15 to the financial statements, certain errors resulting in the improper treatment of previously stated assets, liabilities, revenue and expenses were discovered during the current year. Accordingly, an adjustment has been made to beginning fund balance and net position as of January 1, 2015 to correct the errors. Also, as discussed in Note 15 to the financial statements, the City has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2015. 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 employer's proportionate share of net pension liability, schedule of employer contributions, and budgetary comparison information 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 this required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016 on our consideration of the City of Watford City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watford City's internal control over financial reporting and compliance.

Eide Sallee LLP

Bismarck, North Dakota
December 2, 2016

City of Watford City
Statement of Net Position
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 53,117,320	\$ 11,673,829	\$ 64,791,149
Restricted cash	33,666,464	77,400	33,743,864
Taxes receivable	55,546	-	55,546
Accounts receivable, net of allowance	1,393,389	1,000,083	2,393,472
Intergovernmental receivable	1,349,152	-	1,349,152
Capital assets not being depreciated	78,727,934	39,035,441	117,763,375
Capital assets, net of accumulated depreciation	26,342,825	21,636,125	47,978,950
Total assets	<u>194,652,630</u>	<u>73,422,878</u>	<u>268,075,508</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	497,708	189,710	687,418
Liabilities			
Accounts payable	9,509,772	175,072	9,684,844
Retainage payable	4,897,587	1,350,113	6,247,700
Interest payable	296,697	114,552	411,249
Noncurrent liabilities			
Due within one year			
Compensated absences	75,000	15,000	90,000
General obligation bonds	45,000	-	45,000
Revenue bonds, net of premium	805,859	264,402	1,070,261
Refunding improvement bonds, net of premium	856,787	-	856,787
Due in more than one year			
Compensated absences	58,974	31,225	90,199
General obligation bonds	575,000	-	575,000
Revenue bonds, net of premium	39,684,040	20,719,998	60,404,038
Certificates of indebtedness	27,011,565	-	27,011,565
Refunding improvement bonds, net of premium	25,872,159	-	25,872,159
Net pension liability	1,200,509	457,594	1,658,103
Total liabilities	<u>110,888,949</u>	<u>23,127,956</u>	<u>134,016,905</u>

City of Watford City
Statement of Net Position
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	271,019	103,303	374,322
Net Position			
Net investment in capital assets	10,220,349	39,687,166	49,907,515
Restricted for debt service	163,000	77,400	240,400
Restricted for capital projects	55,061,742	-	55,061,742
Restricted for planning commission	235,807	-	235,807
Unrestricted	18,309,472	10,616,763	28,926,235
Total net position	\$ 83,990,370	\$ 50,381,329	\$ 134,371,699

City of Watford City
Statement of Activities
Year Ended December 31, 2015

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 9,356,105	\$ 3,555,394	\$ 1,273,651	\$ -	\$ (4,527,060)	\$ -	\$ (4,527,060)
Public safety	3,212,522	74,628	-	-	(3,137,894)	-	(3,137,894)
Public works	249,004	-	-	40,729,042	40,480,038	-	40,480,038
Social and economic services	1,789,590	379,934	-	-	(1,409,656)	-	(1,409,656)
Interest	1,188,946	-	-	-	(1,188,946)	-	(1,188,946)
Total governmental activities	<u>15,796,167</u>	<u>4,009,956</u>	<u>1,273,651</u>	<u>40,729,042</u>	<u>30,216,482</u>	<u>-</u>	<u>30,216,482</u>
Business-type activities							
Water	2,293,712	2,674,880	-	-	-	381,168	381,168
Sewer	1,174,384	1,928,668	-	-	-	754,284	754,284
Garbage	915,575	1,089,792	-	-	-	174,217	174,217
Surcharge	10,861	-	-	-	-	(10,861)	(10,861)
Total business-type activities	<u>4,394,532</u>	<u>5,693,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,298,808</u>	<u>1,298,808</u>
Total primary government	<u>\$ 20,190,699</u>	<u>\$ 9,703,296</u>	<u>\$ 1,273,651</u>	<u>\$ 40,729,042</u>	<u>30,216,482</u>	<u>1,298,808</u>	<u>31,515,290</u>
General Revenue							
Taxes - property taxes					573,283	-	573,283
Restaurant, lodging, and occupancy tax					551,332	-	551,332
City sales tax					5,110,652	-	5,110,652
Oil and gas production tax					11,903,949	-	11,903,949
State aid and revenues not restricted to specific programs					959,020	-	959,020
Unrestricted interest income					123,236	-	123,236
Miscellaneous					73,381	4,114	77,495
Total general revenues					<u>19,294,833</u>	<u>4,114</u>	<u>19,298,947</u>
Loss on sale of equipment					(39,439)	-	(39,439)
Transfers					(9,192,044)	9,192,044	-
Change in net position					40,279,852	10,494,966	50,774,818
Net Position - Beginning of Year, as previously reported					40,861,756	39,777,912	80,639,668
Restatement (Note 15)					2,848,762	108,451	2,957,213
Net Position, as restated					<u>43,710,518</u>	<u>39,886,363</u>	<u>83,596,881</u>
Net Position - End of Year					<u>\$ 83,990,370</u>	<u>\$ 50,381,329</u>	<u>\$ 134,371,699</u>

City of Watford City
Balance Sheet – Governmental Funds
December 31, 2015

	General Fund	Road Fund	City Improvements	City Events Center	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 3,798,535	\$ 857,391	\$ 34,761,370	\$ -	\$ -	\$ 13,700,024	\$ 53,117,320
Restricted cash	163,000	78,264	-	26,178,191	7,011,202	235,807	33,666,464
Intergovernmental receivable	1,015,023	46,541	-	-	-	287,588	1,349,152
Taxes receivable	51,036	-	-	-	-	4,510	55,546
Interfund receivable	-	-	56,436	-	-	-	56,436
Accounts receivable, net of allowance	4,743	555,740	-	-	-	832,906	1,393,389
Total assets	\$ 5,032,337	\$ 1,537,936	\$ 34,817,806	\$ 26,178,191	\$ 7,011,202	\$ 15,060,835	\$ 89,638,307
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 248,300	\$ 158,208	\$ -	\$ 4,830,622	\$ 3,531,319	\$ 741,323	\$ 9,509,772
Retainage payable	-	-	-	1,832,190	2,829,590	235,807	4,897,587
Interfund payable	-	-	-	-	-	56,436	56,436
Total short-term liabilities	248,300	158,208	-	6,662,812	6,360,909	1,033,566	14,463,795
Deferred Inflows of Resources							
Unavailable property taxes	51,036	-	-	-	-	4,510	55,546
Total deferred inflows of resources	51,036	-	-	-	-	4,510	55,546
Fund Balances							
Restricted	163,000	78,264	34,817,806	19,515,379	650,293	235,807	55,460,549
Committed	778,144	-	-	-	-	6,711,504	7,489,648
Assigned	-	1,301,464	-	-	-	7,075,448	8,376,912
Unassigned	3,791,857	-	-	-	-	-	3,791,857
Total fund balances	4,733,001	1,379,728	34,817,806	19,515,379	650,293	14,022,759	75,118,966
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,032,337	\$ 1,537,936	\$ 34,817,806	\$ 26,178,191	\$ 7,011,202	\$ 15,060,835	\$ 89,638,307

City of Watford City
 Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position
 December 31, 2015

Total fund balance, governmental funds		\$ 75,118,966
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	\$ 108,727,900	
Less accumulated depreciation	<u>(3,657,141)</u>	
Net capital assets		105,070,759
Property taxes 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 funds.		
		55,546
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds		
		(973,820)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position. Balances at December 31, 2015 are		
Compensated absences	\$ (133,974)	
Interest payable	(296,697)	
Bonds payable, net of premium	<u>(94,850,410)</u>	
Total long-term liabilities		<u>(95,281,081)</u>
Net position of Governmental Activities in the Statement of Net Position		<u>\$ 83,990,370</u>

City of Watford City
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2015

	General Fund	Road Fund	City Improvements	City Events Center	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 168,878	\$ -	\$ -	\$ -	\$ -	\$ 364,874	\$ 533,752
Licenses and permits	60,410	-	-	-	-	3,354,953	3,415,363
Intergovernmental revenues	12,211,459	442,098	32,209,412	-	-	5,661,984	50,524,953
Charges for services	140,031	-	-	-	-	379,934	519,965
Fines and forfeitures	74,628	-	-	-	-	-	74,628
Grants	1,268,711	-	-	909,986	7,819,056	4,940	10,002,693
Interest income	122,986	-	-	-	-	250	123,236
Other income	69,446	-	-	-	-	3,935	73,381
Total revenues	14,116,549	442,098	32,209,412	909,986	7,819,056	9,770,870	65,267,971
Expenditures							
Current							
General government	1,908,453	2,211,746	-	812,186	-	3,713,888	8,646,273
Public safety	2,786,888	-	-	-	-	286,816	3,073,704
Public works	69,993	-	-	-	-	-	69,993
Social and economic services	98,827	-	-	-	-	1,603,915	1,702,742
Debt service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	140,000	140,000
Interest	-	-	-	-	-	1,471,592	1,471,592
Capital outlay	248,265	1,164,479	-	46,120,604	36,098,045	37,000	83,668,393
Total expenditures	5,112,426	3,376,225	-	46,932,790	36,098,045	7,233,211	98,772,697
Excess (deficiency) of revenues over expenditures	9,004,123	(2,934,127)	32,209,412	(46,022,804)	(28,278,989)	2,517,659	(33,504,726)
Other Financing Sources (Uses)							
Premium on bonds issued	-	-	-	3,625,758	3,235,733	-	6,861,491
Issuance of bonds	-	-	-	62,561,565	23,655,000	-	86,216,565
Transfers in	10,000,000	8,344,228	7,000,000	-	6,550,306	7,549,680	39,444,214
Transfers out	(17,297,134)	(6,000,000)	(10,229,396)	(22,500)	(31,665)	(5,863,519)	(39,444,214)
Total other financing sources and uses	(7,297,134)	2,344,228	(3,229,396)	66,164,823	33,409,374	1,686,161	93,078,056
Net change in fund balances	1,706,989	(589,899)	28,980,016	20,142,019	5,130,385	4,203,820	59,573,330
Fund Balances - Beginning, as previously reported	2,051,929	1,892,978	5,878,267	(626,640)	(4,920,430)	8,909,067	13,185,171
Restatement (Note 15)	974,083	76,649	(40,477)	-	440,338	909,872	2,360,465
Fund Balances - Beginning, as restated	3,026,012	1,969,627	5,837,790	(626,640)	(4,480,092)	9,818,939	15,545,636
Fund Balances - Ending	\$ 4,733,001	\$ 1,379,728	\$ 34,817,806	\$ 19,515,379	\$ 650,293	\$ 14,022,759	\$ 75,118,966

City of Watford City

Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances
with the Government-Wide Statement of Activities
Year Ended December 31, 2015

Net change in fund balances - total governmental funds		\$ 59,573,330
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year</p>		
Capital asset additions	\$ 83,668,393	
Contributed capital transferred to enterprise funds	(9,192,044)	
Current year depreciation	<u>(621,245)</u>	
		73,855,104
<p>The net effect of various sale transactions involving assets is to decrease net position. In the Statement of Activities, only the gain or loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale of assets increase financial resources.</p>		
		(39,439)
<p>Changes to net pension liability and pension related deferred outflows and inflows do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds</p>		
		(149,291)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.</p>		
Net increase in interest payable	\$ (263,397)	
Net increase in compensated absences	<u>(80,576)</u>	
		(343,973)
<p>The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the statement of net position.</p>		
		(93,078,056)
<p>Government funds report the effect of bond premiums when debt is first issued, whereas these amounts are amortized in the statement of activities.</p>		
		282,646
<p>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 increase in taxes receivable.</p>		
		39,531
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		<u>140,000</u>
Change in net position of governmental activities		<u>\$ 40,279,852</u>

City of Watford City
Statement of Net Position – Proprietary Funds
December 31, 2015

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 5,466,155	\$ 5,620,967	\$ 586,707	\$ 11,673,829
Accounts receivable	263,935	621,360	114,788	1,000,083
Total current assets	<u>5,730,090</u>	<u>6,242,327</u>	<u>701,495</u>	<u>12,673,912</u>
Noncurrent assets				
Restricted cash	23,650	53,750	-	77,400
Capital assets not being depreciated	8,544,880	30,490,561	-	39,035,441
Capital assets, net of accumulated depreciation	7,970,779	13,144,349	520,997	21,636,125
Total non-current assets	<u>16,539,309</u>	<u>43,688,660</u>	<u>520,997</u>	<u>60,748,966</u>
Total assets	<u>22,269,399</u>	<u>49,930,987</u>	<u>1,222,492</u>	<u>73,422,878</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pension	74,187	46,245	69,278	189,710
Liabilities				
Current liabilities				
Accounts payable	145,142	11,884	18,046	175,072
Retainage payable	127,360	1,222,753	-	1,350,113
Interest payable	2,067	112,485	-	114,552
Compensated absences	5,000	5,000	5,000	15,000
Revenue bonds	16,000	248,402	-	264,402
Total current liabilities	<u>295,569</u>	<u>1,600,524</u>	<u>23,046</u>	<u>1,919,139</u>
Non-current liabilities				
Compensated absences	16,096	7,785	7,344	31,225
Revenue bonds	232,000	20,487,998	-	20,719,998
Net pension liability	178,945	111,545	167,104	457,594
Total non-current liabilities	<u>427,041</u>	<u>20,607,328</u>	<u>174,448</u>	<u>21,208,817</u>
Total liabilities	<u>722,610</u>	<u>22,207,852</u>	<u>197,494</u>	<u>23,127,956</u>

City of Watford City
Statement of Net Position – Proprietary Funds
December 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pension	40,397	25,182	37,724	103,303
Net Position				
Net investment in capital accounts	16,267,659	22,898,510	520,997	39,687,166
Restricted for debt service	23,650	53,750	-	77,400
Unrestricted	5,289,270	4,791,938	535,555	10,616,763
Total net position	<u>\$ 21,580,579</u>	<u>\$ 27,744,198</u>	<u>\$ 1,056,552</u>	<u>\$ 50,381,329</u>

City of Watford City
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended December 31, 2015

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Revenues				
Charges for services	\$ 2,674,880	\$ 1,928,668	\$ 1,089,792	\$ 5,693,340
Miscellaneous revenues	4,114	-	-	4,114
Total operating revenues	<u>2,678,994</u>	<u>1,928,668</u>	<u>1,089,792</u>	<u>5,697,454</u>
Expenditures				
Cost of services	1,721,196	378,052	348,012	2,447,260
Contractual and professional services	2,784	20,171	-	22,955
Materials and maintenance	164,750	13,852	-	178,602
Utilities	17,888	71,167	7,318	96,373
Supplies	59,953	2,419	30,675	93,047
Administration	131,278	59,444	467,450	658,172
Depreciation	189,654	433,606	72,981	696,241
Total operating expenses	<u>2,287,503</u>	<u>978,711</u>	<u>926,436</u>	<u>4,192,650</u>
Operating income	<u>391,491</u>	<u>949,957</u>	<u>163,356</u>	<u>1,504,804</u>
Non-operating Revenues (Expenses)				
Interest expense	(6,209)	(195,673)	-	(201,882)
Total non-operating revenue (expenses)	<u>(6,209)</u>	<u>(195,673)</u>	<u>-</u>	<u>(201,882)</u>
Net income before contributions	385,282	754,284	163,356	1,302,922
Capital contributions	<u>3,641,476</u>	<u>5,550,568</u>	<u>-</u>	<u>9,192,044</u>
Change in net position	4,026,758	6,304,852	163,356	10,494,966
Total Net Position - Beginning, as previously reported	<u>17,346,641</u>	<u>21,456,303</u>	<u>974,968</u>	<u>39,777,912</u>
Restatement (Note 15)	<u>207,180</u>	<u>(16,957)</u>	<u>(81,772)</u>	<u>108,451</u>
Total Net Position - Beginning, as restated	<u>17,553,821</u>	<u>21,439,346</u>	<u>893,196</u>	<u>39,886,363</u>
Total Net Position - Ending	<u>\$ 21,580,579</u>	<u>\$ 27,744,198</u>	<u>\$ 1,056,552</u>	<u>\$ 50,381,329</u>

City of Watford City
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2015

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,724,197	\$ 1,800,121	\$ 1,065,695	\$ 5,590,013
Payments to suppliers	(1,460,131)	953,027	(428,711)	(935,815)
Payments to employees	(458,610)	(253,181)	(392,227)	(1,104,018)
Net Cash Provided by Operating Activities	<u>805,456</u>	<u>2,499,967</u>	<u>244,757</u>	<u>3,550,180</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from bond issuance	-	20,171,400	-	20,171,400
Payment on debt	(15,000)	(35,000)	-	(50,000)
Interest paid	(6,575)	(88,771)	-	(95,346)
Capital asset purchases	(248,357)	(21,394,154)	(174,980)	(21,817,491)
Net Cash used by Capital and Related Financing Activities	<u>(269,932)</u>	<u>(1,346,525)</u>	<u>(174,980)</u>	<u>(1,791,437)</u>
Net Change in Cash and Cash Equivalents	535,524	1,153,442	69,777	1,758,743
Cash and Cash Equivalents - Beginning of Year	<u>4,954,281</u>	<u>4,521,275</u>	<u>516,930</u>	<u>9,992,486</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,489,805</u>	<u>\$ 5,674,717</u>	<u>\$ 586,707</u>	<u>\$ 11,751,229</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	<u>\$ 391,491</u>	<u>\$ 949,957</u>	<u>\$ 163,356</u>	<u>\$ 1,504,804</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation expense	189,654	433,606	72,981	696,241
Effects on cash flows due to changes in				
Accounts receivable	45,203	(128,547)	(24,097)	(107,441)
Deferred outflows	(61,683)	(38,450)	(57,602)	(157,735)
Compensated absences liability	21,096	12,785	12,344	46,225
Retainage payable	127,360	1,222,753	-	1,350,113
Accounts payable	8,399	(4,459)	(607)	3,333
Deferred inflows	40,397	25,182	37,724	103,303
Net pension liability	43,539	27,140	40,658	111,337
Total adjustments	<u>413,965</u>	<u>1,550,010</u>	<u>81,401</u>	<u>2,045,376</u>
Net Cash Provided by Operating Activities	<u>\$ 805,456</u>	<u>\$ 2,499,967</u>	<u>\$ 244,757</u>	<u>\$ 3,550,180</u>
Noncash Capital Activities				
Contribution of capital assets from capital project funds	<u>\$ 3,641,476</u>	<u>\$ 5,550,568</u>	<u>\$ -</u>	<u>\$ 9,192,044</u>

City of Watford City
Statement of Net Position – Fiduciary Funds
December 31, 2015

	<u>Ambulance Fees</u>	<u>Park Board Unit Fees</u>	<u>School Fees</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 1,012	\$ 1,012	\$ 1,012
Receivables	<u>5,648</u>	<u>5,648</u>	<u>5,648</u>
Total assets	<u><u>\$ 6,660</u></u>	<u><u>\$ 6,660</u></u>	<u><u>\$ 6,660</u></u>
<i>Liabilities</i>			
Due to others	<u>\$ 6,660</u>	<u>\$ 6,660</u>	<u>\$ 6,660</u>
Total liabilities	<u><u>\$ 6,660</u></u>	<u><u>\$ 6,660</u></u>	<u><u>\$ 6,660</u></u>

Note 1 - Summary of Significant Accounting Policies

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

Financial Reporting Entity

The accompanying financial statements present the activities of the City of Watford City. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Watford City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Watford City.

Based on these criteria, there are no component units to be included within the City of Watford City as a reporting entity.

Related Organizations

McKenzie County Public Library

The City and McKenzie County govern the library by a joint six member board. The County administers the library fund and levies the necessary mills to pay budget expenses. The County contributes funds, supplies and equipment to the library.

Measurement Focus and Basis of Accounting

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

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

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measureable and available only when cash is received by the government.

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Financial Statement Presentation

The City reports the following major governmental funds:

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

Road Fund – This fund accounts for the financial resources and activity of all road specific projects being done throughout the City.

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

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

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

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

Budgets and Budgetary Accounting

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

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or before October 1, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

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

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

Cash and Cash Equivalents

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

Restricted Cash

Certain resources set aside in the general and 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 their road, city event center, capital projects, and planning commission funds because their use is limited by external parties for specific projects. These funds are to be used to pay for the costs incurred on these projects.

Investments

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

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

As of December 31, 2015, all of the City's investments consisted of certificates of deposit with a local financial institution that meet the criteria of cash and cash equivalents and these investments are presented as cash and cash equivalents.

Capital Assets

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

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	30-50 years
Machinery and equipment	5-15 years
Improvements other than buildings	20 years

The City reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2015.

Compensated Absences

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pension, pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System of Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. 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.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As of January 1, 2015 the City of Watford City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 15 and the additional disclosures required by these standards are included in Note 12.

Deferred Outflows and Inflows of Resources

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

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

Long-Term Debt

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

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. The long-term debt consists primarily of bonds payable. Bond premiums and discounts are reported as other financing 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 Commission – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Commission removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements

Assigned – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The city commission 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.

Use of Estimates

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

Note 2 - Cash and Cash Equivalents

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

Custodial Credit Risk

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

At year end December 31, 2015, the City's carrying amount of deposits was \$98,535,013, the agency fund's carrying amount of deposits was \$3,036, and the bank balance was \$98,538,049. Of the bank balances \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Note 3 - Legal Compliance

Expenditures over Appropriations

At December 31, 2015, the following funds had expenditures that exceeded budgeted appropriations:

General fund	\$ (1,003,076)
Social Security Fund	(27,525)
Retirement Fund	(625)
Insurance Reserve Fund	(30,662)
Planning Commission	(674,214)
Cemetery Fund	(26,782)
PD Housing Allowance Grant Fund	(268,436)
Occupancy Tax Fund	(185,172)
Restaurant & Lodging Tax Fund	(14,177)
Cert of Indebtedness, Series 2015A	(196,338)
Cert of Indebtedness, Series 2015B	(48,202)
Cert of Indebtedness, Series 2015C	(19,946)
Cert of Indebtedness, Series 2015D	(20,469)
Sales Tax Revenue Bonds, Series 2015	(508,177)
Special Improvement Bonds, Series 2015	(636,984)
Capital Projects Fund	(38,824,724)
Sewer Fund	(108,631)

All funds with expenditures exceeding appropriations will be covered by excess revenues. No remedial action is anticipated or required.

Deficit Fund Balances

The following funds were in a deficit position at December 31, 2015:

<u>Fund</u>	
Governmental funds	
PD Housing Allowance Grant Fund	\$ 56,436

The deficit will be alleviated by grant revenue incoming from the state.

Note 4 - Accounts Receivable

Accounts receivable are presented net of allowance for uncollectible accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. A receivable is considered past due if any portion of the balance is outstanding after the due date. As of December 31, 2015, the allowance for uncollectible accounts was \$1,500,000.

Activity between funds that are representative of lending/borrowing arrangements outstanding at fiscal year-end are referred to as "due to/from other funds." Advances between funds are not available to appropriation and are not expendable financial resources.

Note 5 - Intergovernmental Receivable

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

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2015 is as follows:

	Balance 1/1/2015 (as restated)	Additions	Transfers	Deletions	Balance 12/31/2015
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 4,498,105	\$ 564,250	\$ -	\$ -	\$ 5,062,355
Construction in progress	14,712,955	60,258,266	(1,305,642)	-	73,665,579
Total capital assets not being depreciated	<u>19,211,060</u>	<u>60,822,516</u>	<u>(1,305,642)</u>	<u>-</u>	<u>78,727,934</u>
Capital assets being depreciated					
Buildings and infrastructure	6,110,190	560,122	-	-	6,670,312
Machinery and equipment	3,664,525	502,689	-	(150,500)	4,016,714
Improvements other than buildings	5,416,276	12,591,022	1,305,642	-	19,312,940
Total capital assets being depreciated	<u>15,190,991</u>	<u>13,653,833</u>	<u>1,305,642</u>	<u>(150,500)</u>	<u>29,999,966</u>
Less accumulated depreciation					
Buildings and infrastructure	476,117	161,914	-	-	638,031
Machinery and equipment	1,267,850	269,156	-	(111,061)	1,425,945
Improvements other than buildings	1,402,990	190,175	-	-	1,593,165
Total accumulated depreciation	<u>3,146,957</u>	<u>621,245</u>	<u>-</u>	<u>(111,061)</u>	<u>3,657,141</u>
Total capital assets being depreciated	<u>12,044,034</u>	<u>13,032,588</u>	<u>1,305,642</u>	<u>(39,439)</u>	<u>26,342,825</u>
Governmental Capital Assets, net	<u><u>\$ 31,255,094</u></u>	<u><u>\$ 73,855,104</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (39,439)</u></u>	<u><u>\$ 105,070,759</u></u>

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

General government	\$ 216,568
Public safety	138,818
Public works	179,011
Social and economic services	86,848
 Total depreciation expense	 \$ 621,245

	Balance 1/1/2015	Additions	Transfers	Deletions	Balance 12/31/2015
Business-type activities					
Capital assets not being depreciated					
Land	\$ 25,143	\$ -	\$ -	\$ -	\$ 25,143
Construction in progress	13,578,214	28,150,129	(2,718,045)	-	39,010,298
Total capital assets not being depreciated	13,603,357	28,150,129	(2,718,045)	-	39,035,441
Capital assets being depreciated					
Buildings and infrastructure	14,120,595	2,567,543	2,718,045	-	19,406,183
Machinery and equipment	911,645	201,980	-	-	1,113,625
Improvements other than buildings	2,713,276	89,883	-	-	2,803,159
Total capital assets being depreciated	17,745,516	2,859,406	2,718,045	-	23,322,967
Less accumulated depreciation					
Buildings and infrastructure	601,183	497,765	-	-	1,098,948
Machinery and equipment	144,140	93,524	-	-	237,664
Improvements other than buildings	245,278	104,952	-	-	350,230
Total accumulated depreciation	990,601	696,241	-	-	1,686,842
Total capital assets being depreciated, net	16,754,915	2,163,165	2,718,045	-	21,636,125
Business-type activities - capital assets, net	\$ 30,358,272	\$ 30,313,294	\$ -	\$ -	\$ 60,671,566

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

Water fund	\$ 189,654
Sewer fund	433,606
Garbage fund	62,120
Surcharge fund	10,861
	\$ 696,241

Note 7 - Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2015:

Governmental Activities

	Balance 1/1/2015	Additions	Reductions	Balance 12/31/2015	Due Within One Year
Compensated absences	\$ 53,398	\$ 153,896	\$ 73,320	\$ 133,974	\$ 75,000
General Obligation Bonds	665,000	-	45,000	620,000	45,000
Certificates of Indebtedness	-	27,011,565	-	27,011,565	-
Revenue Bonds	1,530,000	35,550,000	95,000	36,985,000	685,000
Plus unamortized premium	-	3,625,758	120,859	3,504,899	120,859
Refunding Improvement Bonds	-	23,655,000	-	23,655,000	695,000
Plus unamortized premium	-	3,235,733	161,787	3,073,946	161,787
Total	\$ 2,248,398	\$ 93,231,952	\$ 495,966	\$ 94,984,384	\$ 1,782,646

Business-type Activities

	1/1/2015 (as restated)	Additions	Reductions	Balance 12/31/2015	Due Within One Year
Compensated absences	\$ -	\$ 59,586	\$ 13,361	\$ 46,225	\$ 15,000
Revenue Bonds	863,000	20,171,400	50,000	20,984,400	264,402
Total	\$ 863,000	\$ 20,230,986	\$ 63,361	\$ 21,030,625	\$ 279,402

Outstanding debt at December 31, 2015 (excluding compensated absences) consisted of the following issues.

Governmental Activities

General Obligation Bonds

\$710,000 General Obligation Highway Refunding Bonds, Series 2013; due in annual installments of \$52,160 to \$57,308 through May 1, 2028; interest at .6% to 2.70% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund \$ 620,000

Certificates of Indebtedness

\$15,000,000 Certificate of Indebtedness, Series 2015A; \$7,420,975 drawn as of 12/31/2015, interest only due through December 31, 2016, monthly installments of \$73,906 through December 31, 2026; interest at 3.65% paid monthly; liquidated out of the debt service funds through transfers in from the general fund \$ 7,420,975

<p>\$30,000,000 Certificate of Indebtedness, Series 2015B; \$15,086,665 drawn as of 12/31/2015, interest only due through December 31, 2016, monthly installments of \$137,806 through December 31, 2026; interest at 1.85% paid monthly; liquidated out of the debt service funds through transfers in from the general fund</p>	15,086,665
<p>\$3,000,000 Certificate of Indebtedness, Series 2015C; \$1,501,067 drawn as of 12/31/2015, interest only due through December 31, 2016, monthly installments of \$14,949 through December 31, 2026; interest at 3.65% paid monthly; liquidated out of the debt service funds through transfers in from the general fund</p>	1,501,067
<p>\$6,000,000 Certificate of Indebtedness, Series 2015D; \$3,002,858 drawn as of 12/31/2015, interest only due through December 31, 2016, monthly installments of \$27,429 through December 31, 2026; interest at 1.85% paid monthly; liquidated out of the debt service funds through transfers in from the general fund</p>	<u>3,002,858</u>
<p>Total Certificates of Indebtedness</p>	<u><u>\$ 27,011,565</u></u>

Revenue Bonds

<p>\$1,630,000 Oil and Gas Tax Revenue Refunding Bonds, Series 2013; due in annual installments of \$124,605 to \$130,811 through May 1, 2028; interest at .6% to 2.95% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund</p>	\$ 1,435,000
<p>\$35,550,000 Sales Tax Revenue Bonds, Series 2015; due in annual installments of \$2,268,375 to \$2,273,125 through June 1, 2045; interest at 2% to 5% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund</p>	<u>35,550,000</u>
<p>Total Revenue Bonds</p>	<u><u>\$ 36,985,000</u></u>

Revenue bonds are issued to finance capital improvement projects in which revenue from operations of such improvement projects or revenue pledged from a designated revenue stream is used to pay the debt service. The City has committed its oil and gas tax and public domain revenues to pay the annual principal and interest requirements on the 2013 oil and gas revenue bonds. Proceeds from the bonds were used to pay the remaining maturities of the Oil and Gas Tax Revenue Bonds of 2008. The bonds are payable through 2028. The total principal and interest remaining to be paid on the bonds is \$1,673,275. Principal payments of \$95,000 and interest payments of \$29,605 were made in the current year. The oil and gas tax and public domain revenues in the current year were \$11,903,949 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 Event Center. The bonds are payable through 2045. The City issued \$35,550,000 as of December 31, 2015. Interest payments of \$508,110 were made during the year. No principal was paid in the current year. The sales tax revenues in the current year were \$5,110,652.

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>\$ 23,655,000</u>
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Business-Type Activities

\$347,464 Water Revenue Bonds, Series 2009; due in annual installments of \$18,061 to \$23,650 through September 1, 2028; interest at 2.5% paid semi-annually; liquidated with revenues generated for services provided out of the water fund	\$ 248,000
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\$808,588 Sewer Revenue Bonds, Series 2008; due in annual installments of \$49,125 to \$53,750 through September 1, 2028; interest at 2.5% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund	565,000
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\$19,000,000 Sewer Revenue Bonds, Series 2015; \$17,067,079 drawn on bonds at December 31, 2015 with \$1,932,921 available to be drawn; due in annual installments of \$769,570 through September 1, 2045; interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund	17,067,079
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\$14,000,000 Sewer Revenue Bonds, Series 2015B; \$3,104,321 drawn on bonds at December 31, 2015 with \$10,895,679 available to be drawn; due in annual installments of \$139,977 through September 1, 2046; interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund	<u>3,104,321</u>
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	<u>\$ 20,984,400</u>
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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. 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 \$294,000. Principal payments of \$30,000 and interest payments of \$6,575 were made in the current year. The water fund net revenues in the current year were \$581,145.

The City committed the net revenues of the sewer fund to pay the annual principal and interest requirements on the 2008 sewer revenue bonds. 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 \$669,125. Principal payments of \$70,000 and interest payments of \$15,000 were made in the current year. The sewer fund net revenues in the current year were \$1,383,563.

The City committed available oil and gas production tax revenue, net revenues of the sewer fund, earnings on any funds or accounts created by this debt, and any additional sources necessary to pay the annual principal and interest requirements on the 2015 sewer revenue bonds. Proceeds from the bonds provided financing for improvements to the City's wastewater facilities. The bonds are payable through 2045 and 2046. The City can issue up to \$33,000,000 in bonds, but only \$20,171,400 was advanced at December 31, 2015. Interest payments of \$73,771 were made during the year. No principal was paid in the current year. The oil and gas production taxes revenue in the current year was \$11,903,949 and the sewer fund net revenues in the current year were \$1,383,563.

The annual maturity of long-term debt of the City, except compensated absences payable, as of December 31, 2015 is as follows:

Year Ended December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 1,425,000	\$ 3,505,910	\$ 4,930,910	\$ 264,402	\$ 311,207	\$ 575,609
2017	3,945,335	3,440,615	7,385,950	528,069	417,712	945,781
2018	4,054,302	3,322,578	7,376,880	577,803	406,394	984,197
2019	4,184,884	3,197,467	7,382,351	588,315	394,458	982,773
2020	4,302,133	3,079,731	7,381,864	600,039	382,308	982,347
2021-2025	23,531,339	13,345,464	36,876,803	3,196,791	1,720,225	4,917,016
2026-2030	14,658,572	9,594,076	24,252,648	3,397,292	1,377,244	4,774,536
2031-2035	14,300,000	6,325,750	20,625,750	3,515,578	1,032,158	4,547,736
2036-2040	7,825,000	3,528,125	11,353,125	3,884,992	662,744	4,547,736
2041-2045	10,045,000	1,305,625	11,350,625	4,293,222	254,514	4,547,736
2046	-	-	-	137,897	2,080	139,977
	<u>\$ 88,271,565</u>	<u>\$ 50,645,341</u>	<u>\$ 138,916,906</u>	<u>\$ 20,984,400</u>	<u>\$ 6,961,044</u>	<u>\$ 27,945,444</u>

Note 8 - Transfers

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

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

The following is a list of transfers for the year ending December 31, 2015:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental funds		
General fund	\$ 10,000,000	\$ 17,297,134
Road fund	8,344,228	6,000,000
City Improvements fund	7,000,000	10,229,396
City Events Center fund	-	22,500
Capital projects fund	6,550,306	31,665
Non-major funds	7,549,680	5,863,519
	<u>\$ 39,444,214</u>	<u>\$ 39,444,214</u>
Total transfers		

The transfers in and out during 2015 were budgeted transfers.

Note 9 - Fund Balance

At December 31, 2015, the governmental fund balance classifications are as follows:

	General Fund	Road Fund	City Improvements	City Events Center	Capital Projects Funds	Non-Major Governmental Funds	Total
Restricted for							
City improvements	\$ -	\$ -	\$ 34,817,806	\$ -	\$ -	\$ -	\$ 34,817,806
City event center	-	-	-	19,515,379	-	-	19,515,379
Capital projects	-	-	-	-	650,293	-	650,293
Debt service	163,000	-	-	-	-	-	163,000
Road projects	-	78,264	-	-	-	-	78,264
Planning commission	-	-	-	-	-	235,807	235,807
Committed to							
Capital projects	778,144	-	-	-	-	1,891,643	2,669,787
Planning commission	-	-	-	-	-	120,809	120,809
Roughrider fund	-	-	-	-	-	4,699,002	4,699,002
Assigned	-	1,301,464	-	-	-	7,075,498	8,376,962
Unassigned	3,791,857	-	-	-	-	-	3,791,857
	<u>\$ 4,733,001</u>	<u>\$ 1,379,728</u>	<u>\$ 34,817,806</u>	<u>\$ 19,515,379</u>	<u>\$ 650,293</u>	<u>\$ 14,022,759</u>	<u>\$ 75,118,966</u>

Note 10 - Lease Agreements

The City entered into an agreement to lease a shop building and surrounding property located in McKenzie County. The agreement is on a month to month basis and the City can end the agreement at any time. Every month the City rents the building they are required to pay \$9,900 on the first of each month.

The City entered into an agreement with the County of McKenzie to share dispatcher services and jail space. The agreement was from January 1, 2015 through December 31, 2015 and is for \$212,000 plus all medical expenses that accrue over \$10,000 per City arrested prisoner. The City has extended this agreement through 2016.

Future minimum lease obligations at December 31, 2015 were as follows:

<u>Year Ending December 31</u>	<u>Balance</u>
2016	\$ 212,000

Note 11 - Interfund Receivable/Payable

Interfund receivable/payable at December 31, 2015 consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
City Improvements	Nonmajor Governmental Funds	\$ 56,436

The interfund payable will be eliminated when more grant funds are received.

Note 12 - Pension Plan

The City of Watford City participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. PERS is an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. The following is a brief description of the plan, for general information only. Participants should refer to NDCC Chapter 54-52 for more complete information.

Defined Benefit Pension Plan

PERS is a cost-sharing multiple-employer defined benefit pension plan covering most classified employees of the City of Watford City. The plan provides pension, disability and death benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan. Responsibility for administration of the PERS 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.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the NDCC. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members 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). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the NDCC. If an active member dies with less than three years of service, 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, the surviving spouse will be entitled to a single payment refund, life-time monthly payment 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 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 System in the North Dakota Administrative Code.

Refunds of Member Contributions

Upon termination, if a member is not vested (is not 65 or does not have three years of service credited for the NDPERS) they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a 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 contributions 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 covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

At December 31, 2015, the City of Watford City reported a liability of \$1,658,103 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Watford City's proportion of the net pension liability was based on the City of Watford City's share of covered payroll in the pension plan relative to the covered payroll of all participating NDPERS Main System employers. At July 1, 2015, City of Watford City's proportion was 0.243845% percent.

For the year ended December 31, 2015, the City of Watford City recognized pension expense of \$507,951. At December 31, 2015, the City of Watford City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$ 48,104	\$ -
Change in assumptions	-	147,729
Net differences between projected and actual earnings on pension plan investments	191,591	226,593
Changes in proportion and differences between employer contributions and proportionate share of contributions	286,802	-
Employer contributions subsequent to the measurement date	160,921	-
Total	\$ 687,418	\$ 374,322

\$160,921 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, 2016.

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:		
2016	\$	12,697
2017		12,697
2018		12,697
2019		85,025
2020		29,059
		152,175
	\$	152,175

Actuarial Assumptions

The total North Dakota PERS pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increase (Payroll Growth)	4.50%
Investment Rate of Return	8.00%, net of investment expenses
Cost of Living Adjustment	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, 2015, 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 rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	31%	6.90%
International equity	21%	7.55%
Global real assets	20%	5.38%
Domestic fixed income	17%	1.52%
Private Equity	5%	11.30%
International fixed income	5%	0.45%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015.

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:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employers' net pension liability	\$ 2,542,620	\$ 1,658,103	\$ 934,411

Pension Plan Fiduciary Net Position

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

Note 13 - Risk Management

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

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

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$750,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 14 - Commitments

As of December 31, 2015, the City has entered into construction contracts in the amount of \$196,336,921, of which the City has paid \$112,030,823. The committed amount still owed by the City is \$84,306,098.

Note 15 - Restatement and Adoption of New Standard

During 2015, the City identified misstatements to the 2014 financial statements related to accounts payable, receivable, capital asset, and long-term debt balances that were not reflective of amounts from certain transactions. The City restated fund balance and net position at January 1, 2015 to reflect the misstatements of the balances reported in the prior financial statements.

As of January 1, 2015, the City of Watford City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date.

The effects of the restatements are as follows:

	General Fund	Road Fund	City Improvements	Capital Projects Fund	Non-Major Governmental Funds	Governmental Activities
Fund Balance/Net Position - January 1, as previously reported	\$ 2,051,929	\$ 1,892,978	\$ 5,878,267	\$ (4,920,430)	\$ 8,909,067	\$ 40,861,756
Restatements						
Overstatement of accounts payable	127,086	24,411	892	975,642	30,218	1,158,249
Understatement (overstatement) of receivables	846,997	52,238	(41,369)	(535,304)	879,654	1,202,216
Understatement of capital assets	-	-	-	-	-	1,312,826
Net Pension Liability at December 31, 2014	-	-	-	-	-	(908,415)
Deferred outflows of resources related to contributions made during the year ended December 31, 2014	-	-	-	-	-	83,886
Fund Balance/Net Position - January 1, as restated	<u>\$ 3,026,012</u>	<u>\$ 1,969,627</u>	<u>\$ 5,837,790</u>	<u>\$ (4,480,092)</u>	<u>\$ 9,818,939</u>	<u>\$ 43,710,518</u>

	Water Fund	Sewer Fund	Non-Major Enterprise Funds	Business- Type Activities
Net Position - January 1, as previously reported	\$ 17,346,641	\$ 21,456,303	\$ 974,968	\$ 39,777,912
Restatements				
Overstatement of accounts payable	277,109	77,993	32,998	388,100
Overstatement of long-term debt	14,000	35,000	-	49,000
Understatement (overstatement) of receivables	38,974	(53,339)	-	(14,365)
Net Pension Liability at December 31, 2014	(135,407)	(84,405)	(126,446)	(346,258)
Deferred outflows of resources related to contributions made during the year ended December 31, 2014	12,504	7,794	11,676	31,974
Net Position - January 1, as restated	<u>\$ 17,553,821</u>	<u>\$ 21,439,346</u>	<u>\$ 893,196</u>	<u>\$ 39,886,363</u>



Required Supplementary Information
December 31, 2015

City of Watford City

City of Watford City
 Schedule of the Employer's Proportionate Share of Net Pension Liability
 North Dakota Public Employee Retirement System Pension Plan
 Year Ended December 31, 2015

Last 10 Fiscal Years*

	2015
Employer's proportion of the net pension liability	0.243845%
Employer's proportionate share of the net pension liability	\$ 1,658,103
Employer's covered-employee payroll	\$ 2,172,361
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.33%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

* Data reported is measure as of July 1, 2015.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown as complete data is not available prior to 2015

City of Watford City
 Schedule of the Employer's Contributions
 North Dakota Public Employee Retirement System Pension Plan
 Year Ended December 31, 2015

Last 10 Fiscal Years*

	2015
Contractually required contribution	\$ 301,756
Contributions in relation to the contractually required contribution	(301,756)
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll	\$ 2,785,187
Contributions as a percentage of covered-employee payroll	10.83%

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown as complete data 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
Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 157,453	\$ 157,453	\$ 168,878	\$ 11,425
Licenses and permits	64,200	64,200	60,410	(3,790)
Intergovernmental revenues	18,474,741	18,474,741	12,211,459	(6,263,282)
Charges for services	6,000	6,000	140,031	134,031
Fines and forfeitures	40,000	40,000	74,628	34,628
Grants	-	-	1,268,711	1,268,711
Interest income	20,000	20,000	122,986	102,986
Other income	32,300	32,300	69,446	37,146
Total revenues	<u>18,794,694</u>	<u>18,794,694</u>	<u>14,116,549</u>	<u>(4,678,145)</u>
Expenditures				
Current				
General government	1,608,900	1,608,900	1,908,453	(299,553)
Public safety	2,293,950	2,293,950	2,786,888	(492,938)
Public works	45,000	45,000	69,993	(24,993)
Social and economic services	161,500	161,500	98,827	62,673
Capital outlay	-	-	248,265	(248,265)
Total expenditures	<u>4,109,350</u>	<u>4,109,350</u>	<u>5,112,426</u>	<u>(1,003,076)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>14,685,344</u>	<u>14,685,344</u>	<u>9,004,123</u>	<u>(5,681,221)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	10,000,000	10,000,000
Transfers out	<u>(14,748,000)</u>	<u>(14,748,000)</u>	<u>(17,297,134)</u>	<u>(2,549,134)</u>
Total other financing sources and uses	<u>(14,748,000)</u>	<u>(14,748,000)</u>	<u>(7,297,134)</u>	<u>7,450,866</u>
Net change in fund balances	<u>(62,656)</u>	<u>(62,656)</u>	<u>1,706,989</u>	<u>1,769,645</u>
Fund Balances - Beginning, as previously reported	2,051,929	2,051,929	2,051,929	-
Restatement (Note 15)	<u>974,083</u>	<u>974,083</u>	<u>974,083</u>	<u>-</u>
Fund Balances - Beginning, as restated	<u>3,026,012</u>	<u>3,026,012</u>	<u>3,026,012</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 2,963,356</u>	<u>\$ 2,963,356</u>	<u>\$ 4,733,001</u>	<u>\$ 1,769,645</u>

Note 1 – Stewardship, Compliance, and Accountability

Budgetary Information

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

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

- On or before September 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 1, 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.



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2015

City of Watford City

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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***

City Council
City of Watford City
Watford City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watford City as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Watford City's basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as 2015-A, 2015-B and 2015-C to be material weaknesses.

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.

Compliance and Other Matters

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

City of Watford City's Responses to Findings

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

Purpose of this Report

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



Bismarck, North Dakota
December 2, 2016



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

City Council
City of Watford City
Watford City, North Dakota

Report on Compliance for the 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, 2015. 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 the compliance of 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* 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 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 of the City of Watford City's compliance.

Opinion on the Major Federal Program

In our opinion, City of Watford City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2015.

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 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 compliance requirement 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 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Watford City as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Watford City's basic financial statements. We issued our report thereon dated December 2, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Eide Bailly LLP

Bismarck, North Dakota
December 2, 2016

City of Watford City
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2015

<u>Federal Grantor/Pass Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Passed through North Dakota Department of Health			
Capitalization Grants for Clean Water State Revolving Funds	66.458	N/A	\$ 21,076,080
Total Environmental Protection Agency			<u>21,076,080</u>
Total			<u>\$ 21,076,080</u>

Note A -- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Watford City, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The City of Watford City received federal awards indirectly through pass-through entities.

The City of Watford City did not pass-through any amounts to subrecipients as of December 31, 2015.

Note B - Significant Accounting Policies

Governmental fund types account for the City of Watford City's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City of Watford City's summary of significant accounting policies is presented in Note 1 in the City of Watford City's basic financial statements.

The City has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major program:

<u>Name of Federal Program</u>	<u>CFDA number</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

2015-A Recording of Transactions
Material Weakness

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

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

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

Effect - Inadequate internal controls over recording of transactions affects the City’s ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation – We recommend that all general ledger accounts be recorded and reconciled in a timely manner for any differences noted.

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

2015-B Preparation of Financial Statements
Material Weakness

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

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

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

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

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

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

**2015-C Segregation of Duties
Material Weakness**

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

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

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

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

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

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

Section III – Federal Award Findings and Questioned Costs

None reported

**2014-001 Segregation of Duties
Significant Deficiency**

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: The City did not have an appropriate system of internal controls to properly segregate duties between authorization, custody, record keeping, and reconciliation functions.

Status: Repeat finding shown as 2015-C.

**2014-B Preparation of Financial Statements
Significant Deficiency**

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: The City did not have an appropriate system of internal controls to determine that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

Status: Repeat finding shown as 2015-B.