



Financial Statements
December 31, 2016
City of Watford City

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City Council

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

City Officials

Peni Peterson, City Auditor
Kelcee Wright, Finance Director
Curt Moen, City Administrator
Justin Smith, Public Works Superintendent
Art Walgren, Chief of Police



Independent Auditor's Report

City Council
City of Watford City
Watford City, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watford City, North Dakota as of and for the year ended December 31, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 12 to the financial statements, certain errors resulting in misstatements of amounts previously reported for intergovernmental receivables, deferred inflows of resources, retainage payable, revenues and capital contributions as of December 31, 2015, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of January 1, 2016 to correct the errors. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of the employer's proportionate share of net pension liability, schedule of the employer's contributions, 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 the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2018 on our consideration of the City of Watford City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Watford City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watford City's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
March 15, 2018

City of Watford City
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 43,335,993	\$ 10,751,302	\$ 54,087,295
Restricted cash	241,264	258,960	500,224
Intergovernmental receivable	2,237,015	-	2,237,015
Taxes receivable	42,350	-	42,350
Special assessments receivable	25,797,732	-	25,797,732
Accounts receivable	423,595	681,956	1,105,551
Capital assets not being depreciated	146,491,727	14,236,205	160,727,932
Capital assets, net of accumulated depreciation	29,541,809	55,060,979	84,602,788
Total assets	<u>248,111,485</u>	<u>80,989,402</u>	<u>329,100,887</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	1,109,283	372,217	1,481,500
Liabilities			
Accounts payable	2,461,049	235,833	2,696,882
Retainage payable	2,511,318	-	2,511,318
Interest payable	296,697	193,873	490,570
Noncurrent liabilities			
Due within one year			
Compensated absences	75,000	15,000	90,000
General obligation bonds	45,000	-	45,000
Certificates of indebtedness	2,121,354	-	2,121,354
Revenue bonds, net of premium	820,859	515,713	1,336,572
Refunding improvement bonds, net of premium	946,787	-	946,787
Due in more than one year			
Compensated absences	38,527	35,656	74,183
General obligation bonds	530,000	-	530,000
Certificates of indebtedness	51,459,867	-	51,459,867
Revenue bonds, net of premium	38,863,181	28,478,014	67,341,195
Refunding improvement bonds, net of premium	24,925,372	-	24,925,372
Net pension liability	2,200,775	738,465	2,939,240
Total liabilities	<u>127,295,786</u>	<u>30,212,554</u>	<u>157,508,340</u>

City of Watford City
Statement of Net Position
December 31, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	<u>129,712</u>	<u>43,525</u>	<u>173,237</u>
Net Position			
Net investment in capital assets	56,321,116	40,303,457	96,624,573
Restricted for debt service	163,000	258,960	421,960
Restricted for city improvements	13,837,973	-	13,837,973
Restricted for road projects	78,264	-	78,264
Unrestricted	<u>51,394,917</u>	<u>10,543,123</u>	<u>61,938,040</u>
Total net position	<u>\$ 121,795,270</u>	<u>\$ 51,105,540</u>	<u>\$ 172,900,810</u>

City of Watford City
Statement of Activities
Year Ended December 31, 2016

	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 5,845,496	\$ 496,572	\$ -	\$ 344,208	\$ (5,004,716)	\$ -	\$ (5,004,716)
Public safety	3,140,748	40,795	18,729	-	(3,081,224)	-	(3,081,224)
Public works	2,069,262	-	-	34,940,982	32,871,720	-	32,871,720
Social and economic services	2,794,843	92,108	-	1,987,283	(715,452)	-	(715,452)
Interest	3,571,803	-	-	-	(3,571,803)	-	(3,571,803)
Total governmental activities	<u>17,422,152</u>	<u>629,475</u>	<u>18,729</u>	<u>37,272,473</u>	<u>20,498,525</u>	<u>-</u>	<u>20,498,525</u>
Business-type activities							
Water	2,270,122	2,145,192	-	-	-	(124,930)	(124,930)
Sewer	1,848,818	1,146,274	44,800	-	-	(657,744)	(657,744)
Garbage	818,398	1,230,238	-	-	-	411,840	411,840
Surcharge	9,881	-	-	-	-	(9,881)	(9,881)
Total business-type activities	<u>4,947,219</u>	<u>4,521,704</u>	<u>44,800</u>	<u>-</u>	<u>-</u>	<u>(380,715)</u>	<u>(380,715)</u>
Total primary government	<u>\$ 22,369,371</u>	<u>\$ 5,151,179</u>	<u>\$ 63,529</u>	<u>\$ 37,272,473</u>	<u>20,498,525</u>	<u>(380,715)</u>	<u>20,117,810</u>
General Revenue							
Taxes - property taxes					1,316,311	-	1,316,311
Restaurant, lodging, and occupancy tax					53,775	-	53,775
City sales tax					2,863,399	-	2,863,399
Oil and gas production tax					10,747,971	-	10,747,971
State aid and revenues not restricted to specific programs					907,329	-	907,329
Unrestricted interest income					116,782	-	116,782
Miscellaneous					573,440	-	573,440
Total general revenues					<u>16,579,007</u>	<u>-</u>	<u>16,579,007</u>
Loss on sale of equipment					(56,345)	-	(56,345)
Transfers					245,187	(245,187)	-
Change in net position					<u>37,266,374</u>	<u>(625,902)</u>	<u>36,640,472</u>
Net Position - Beginning, as previously reported					83,990,370	50,381,329	134,371,699
Restatement (Note 12)					538,526	1,350,113	1,888,639
Net Position - Beginning, as restated					<u>84,528,896</u>	<u>51,731,442</u>	<u>136,260,338</u>
Net Position - Ending					<u>\$ 121,795,270</u>	<u>\$ 51,105,540</u>	<u>\$ 172,900,810</u>

City of Watford City
Balance Sheet – Governmental Funds
December 31, 2016

	General Fund	Road Fund	City Improvements	City Events Center	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 7,799,560	\$ 1,537,958	\$ 13,837,973	\$ 30,906	\$ 5,940,703	\$ 6,548,880	\$ 7,640,013	\$ 43,335,993
Restricted cash	163,000	78,264	-	-	-	-	-	241,264
Intergovernmental receivable	1,929,907	62,575	-	-	-	-	244,533	2,237,015
Taxes receivable	36,182	-	-	-	-	-	6,168	42,350
Special assessments receivable	-	-	-	-	-	2,827,919	-	2,827,919
Accounts receivable	314,248	29,701	-	-	-	-	79,646	423,595
Total assets	\$ 10,242,897	\$ 1,708,498	\$ 13,837,973	\$ 30,906	\$ 5,940,703	\$ 9,376,799	\$ 7,970,360	\$ 49,108,136
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 977,522	\$ 100,419	\$ -	\$ 58,471	\$ 874,360	\$ -	\$ 450,277	\$ 2,461,049
Retainage payable	202,902	-	-	1,007,442	1,300,974	-	-	2,511,318
Total liabilities	1,180,424	100,419	-	1,065,913	2,175,334	-	450,277	4,972,367
Deferred Inflows of Resources								
Unavailable property taxes	36,182	-	-	-	-	-	6,168	42,350
Unavailable special assessments receivable	-	-	-	-	-	2,827,919	-	2,827,919
Total deferred inflows of resources	36,182	-	-	-	-	2,827,919	6,168	2,870,269
Fund Balances								
Restricted	163,000	78,264	13,837,973	-	-	-	-	14,079,237
Committed	271,272	-	-	-	-	-	620,957	892,229
Assigned	-	1,529,815	-	-	3,765,369	6,548,880	6,892,958	18,737,022
Unassigned	8,592,019	-	-	(1,035,007)	-	-	-	7,557,012
Total fund balances	9,026,291	1,608,079	13,837,973	(1,035,007)	3,765,369	6,548,880	7,513,915	41,265,500
Total liabilities, deferred inflows of resources, and fund balances	\$ 10,242,897	\$ 1,708,498	\$ 13,837,973	\$ 30,906	\$ 5,940,703	\$ 9,376,799	\$ 7,970,360	\$ 49,108,136

City of Watford City
 Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position
 December 31, 2016

Total fund balance, governmental funds		\$ 41,265,500
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	\$ 180,760,141	
Less accumulated depreciation	<u>(4,726,605)</u>	
Net capital assets		176,033,536
Property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and are reported as deferred inflows in the governmental funds		
		2,870,269
Uncertified special assessments are not current financial resources and therefore are not reported in the governmental funds		
		22,969,813
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds		
		(1,221,204)
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, 2016 are:		
Compensated absences	\$ (113,527)	
Interest payable	(296,697)	
Bonds payable, net of premium	<u>(119,712,420)</u>	
Total long-term liabilities		<u>(120,122,644)</u>
Net position of Governmental Activities in the Statement of Net Position		<u>\$ 121,795,270</u>

City of Watford City
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2016

	General Fund	Road Fund	City Improvements	City Events Center	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 746,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 582,848	\$ 1,329,507
Licenses and permits	425,419	-	-	-	-	-	-	425,419
Intergovernmental revenues	11,440,492	368,333	209,412	1,987,283	9,143,250	-	2,917,174	26,065,944
Charges for services	71,153	-	-	-	-	-	92,108	163,261
Fines and forfeitures	40,795	-	-	-	-	-	-	40,795
Interest income	116,531	-	-	-	-	-	251	116,782
Other income	330,724	662	194,956	44,950	-	-	2,148	573,440
Total revenues	13,171,773	368,995	404,368	2,032,233	9,143,250	-	3,594,529	28,715,148
Expenditures								
Current								
General government	3,959,649	-	-	-	-	-	1,334,351	5,294,000
Public safety	2,749,598	-	-	-	-	-	212,000	2,961,598
Public works	88,153	1,395,515	-	-	-	-	-	1,483,668
Social and economic services	196,861	-	-	175,970	-	-	2,408,060	2,780,891
Debt service								
Principal	-	-	-	-	-	1,834,151	-	1,834,151
Interest	-	-	-	-	-	3,854,449	-	3,854,449
Capital outlay	-	241,098	-	51,558,741	20,957,851	-	119,500	72,877,190
Total expenditures	6,994,261	1,636,613	-	51,734,711	20,957,851	5,688,600	4,073,911	91,085,947
Excess (deficiency) of revenues over expenditures	6,177,512	(1,267,618)	404,368	(49,702,478)	(11,814,601)	(5,688,600)	(479,382)	(62,370,799)
Other Financing Sources (Uses)								
Issuance of bonds	-	-	-	26,978,807	-	-	-	26,978,807
Transfers in	2,394,084	2,000,000	-	5,799,043	18,165,409	10,177,371	2,673,879	41,209,786
Transfers out	(5,050,478)	-	(21,384,201)	(3,625,758)	(3,235,732)	(999,716)	(5,913,901)	(40,209,786)
Total other financing sources and uses	(2,656,394)	2,000,000	(21,384,201)	29,152,092	14,929,677	9,177,655	(3,240,022)	27,978,807
Net change in fund balances	3,521,118	732,382	(20,979,833)	(20,550,386)	3,115,076	3,489,055	(3,719,404)	(34,391,992)
Fund Balances - Beginning, as previously reported	4,733,001	1,379,728	34,817,806	19,515,379	650,293	3,059,825	10,962,934	75,118,966
Restatement (Note 12)	772,172	(504,031)	-	-	-	-	270,385	538,526
Fund Balances - Beginning, as restated	5,505,173	875,697	34,817,806	19,515,379	650,293	3,059,825	11,233,319	75,657,492
Fund Balances - Ending	\$ 9,026,291	\$ 1,608,079	\$ 13,837,973	\$ (1,035,007)	\$ 3,765,369	\$ 6,548,880	\$ 7,513,915	\$ 41,265,500

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, 2016

Net change in fund balances - total governmental funds		\$ (34,391,992)
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	\$ 72,877,190	
Contributed capital transferred to enterprise funds	(754,813)	
Current year depreciation	<u>(1,103,255)</u>	
		71,019,122
<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>		
		(56,345)
<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 change in taxes receivable and special assessments receivable</p>		
		25,784,536
<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>		
		(247,384)
<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 change in compensated absences		20,447
<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>		
		(26,978,807)
<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>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>1,834,151</u>
Change in net position of governmental activities		<u>\$ 37,266,374</u>

City of Watford City
Statement of Net Position – Proprietary Funds
December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 5,254,591	\$ 4,886,192	\$ 610,519	\$ 10,751,302
Accounts receivable	218,435	342,341	121,180	681,956
Total current assets	<u>5,473,026</u>	<u>5,228,533</u>	<u>731,699</u>	<u>11,433,258</u>
Noncurrent assets				
Restricted cash	23,650	235,310	-	258,960
Capital assets not being depreciated	1,608,786	12,627,419	-	14,236,205
Capital assets, net of accumulated depreciation	<u>14,928,320</u>	<u>39,539,175</u>	<u>593,484</u>	<u>55,060,979</u>
Total non-current assets	<u>16,560,756</u>	<u>52,401,904</u>	<u>593,484</u>	<u>69,556,144</u>
Total assets	<u>22,033,782</u>	<u>57,630,437</u>	<u>1,325,183</u>	<u>80,989,402</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pension	<u>142,656</u>	<u>105,270</u>	<u>124,291</u>	<u>372,217</u>
Liabilities				
Current liabilities				
Accounts payable	169,798	19,431	46,604	235,833
Interest payable	2,433	191,440	-	193,873
Compensated absences	5,000	5,000	5,000	15,000
Revenue bonds	16,000	499,713	-	515,713
Total current liabilities	<u>193,231</u>	<u>715,584</u>	<u>51,604</u>	<u>960,419</u>
Non-current liabilities				
Compensated absences	16,718	7,368	11,570	35,656
Revenue bonds	216,000	28,262,014	-	28,478,014
Net pension liability	<u>283,024</u>	<u>208,852</u>	<u>246,589</u>	<u>738,465</u>
Total non-current liabilities	<u>515,742</u>	<u>28,478,234</u>	<u>258,159</u>	<u>29,252,135</u>
Total liabilities	<u>708,973</u>	<u>29,193,818</u>	<u>309,763</u>	<u>30,212,554</u>

City of Watford City
Statement of Net Position – Proprietary Funds
December 31, 2016

	<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	16,681	12,310	14,534	43,525
Net Position				
Net investment in capital accounts	16,305,106	23,404,867	593,484	40,303,457
Restricted for debt service	23,650	235,310	-	258,960
Unrestricted	5,122,028	4,889,402	531,693	10,543,123
Total net position	<u>\$ 21,450,784</u>	<u>\$ 28,529,579</u>	<u>\$ 1,125,177</u>	<u>\$ 51,105,540</u>

City of Watford City
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended December 31, 2016

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Revenues				
Charges for services	\$ 2,145,192	\$ 1,146,274	\$ 1,230,238	\$ 4,521,704
Total operating revenues	<u>2,145,192</u>	<u>1,146,274</u>	<u>1,230,238</u>	<u>4,521,704</u>
Expenditures				
Cost of services	1,895,685	407,924	680,633	2,984,242
Contractual and professional services	-	1,073	-	1,073
Materials and maintenance	86,593	26,943	15,014	128,550
Utilities	17,082	150,036	8,387	175,505
Supplies	49,634	73,714	56,019	179,367
Administration	19	28,822	7,983	36,824
Depreciation	213,303	545,571	60,243	819,117
Total operating expenses	<u>2,262,316</u>	<u>1,234,083</u>	<u>828,279</u>	<u>4,324,678</u>
Operating income (loss)	<u>(117,124)</u>	<u>(87,809)</u>	<u>401,959</u>	<u>197,026</u>
Non-operating Revenues (Expenses)				
Intergovernmental	-	44,800	-	44,800
Interest expense	(7,806)	(614,735)	-	(622,541)
Total non-operating revenue (expenses)	<u>(7,806)</u>	<u>(569,935)</u>	<u>-</u>	<u>(577,741)</u>
Net income (loss) before contributions and transfers	<u>(124,930)</u>	<u>(657,744)</u>	<u>401,959</u>	<u>(380,715)</u>
Capital contributions	201,108	553,705	-	754,813
Transfers out	(333,333)	(333,333)	(333,334)	(1,000,000)
Change in net position	<u>(257,155)</u>	<u>(437,372)</u>	<u>68,625</u>	<u>(625,902)</u>
Total Net Position - Beginning, as previously reported	<u>21,580,579</u>	<u>27,744,198</u>	<u>1,056,552</u>	<u>50,381,329</u>
Restatement (Note 12)	<u>127,360</u>	<u>1,222,753</u>	<u>-</u>	<u>1,350,113</u>
Total Net Position - Beginning, as restated	<u>21,707,939</u>	<u>28,966,951</u>	<u>1,056,552</u>	<u>51,731,442</u>
Total Net Position - Ending	<u>\$ 21,450,784</u>	<u>\$ 28,529,579</u>	<u>\$ 1,125,177</u>	<u>\$ 51,105,540</u>

City of Watford City
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2016

	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,190,692	\$ 1,425,293	\$ 1,223,846	\$ 4,839,831
Payments to suppliers	(1,520,652)	(361,207)	(318,479)	(2,200,338)
Payments to employees	(491,188)	(294,765)	(415,491)	(1,201,444)
Net Cash Provided by Operating Activities	178,852	769,321	489,876	1,438,049
Cash Flows from Capital and Related Financing Activities				
Intergovernmental	-	44,800	-	44,800
Proceeds from bond issuance	-	8,495,327	-	8,495,327
Payment on debt	(16,000)	(470,000)	-	(486,000)
Interest paid	(7,440)	(535,780)	-	(543,220)
Transfers out	(333,333)	(333,333)	(333,334)	(1,000,000)
Capital asset purchases	(33,643)	(8,523,550)	(132,730)	(8,689,923)
Net Cash Used by Capital and Related Financing Activities	(390,416)	(1,322,536)	(466,064)	(2,179,016)
Net Change in Cash and Cash Equivalents	(211,564)	(553,215)	23,812	(740,967)
Cash and Cash Equivalents - Beginning of Year	5,489,805	5,674,717	586,707	11,751,229
Cash and Cash Equivalents - End of Year	<u>\$ 5,278,241</u>	<u>\$ 5,121,502</u>	<u>\$ 610,519</u>	<u>\$ 11,010,262</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ (117,124)	\$ (87,809)	\$ 401,959	\$ 197,026
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation expense	213,303	545,571	60,243	819,117
Effects on cash flows due to changes in				
Accounts receivable	45,500	279,019	(6,392)	318,127
Deferred outflows	(68,469)	(59,025)	(55,013)	(182,507)
Compensated absences liability	622	(417)	4,226	4,431
Accounts payable	24,657	7,547	28,558	60,762
Deferred inflows	(23,716)	(12,872)	(23,190)	(59,778)
Net pension liability	104,079	97,307	79,485	280,871
Total adjustments	<u>295,976</u>	<u>857,130</u>	<u>87,917</u>	<u>1,241,023</u>
Net Cash Provided by Operating Activities	\$ 178,852	\$ 769,321	\$ 489,876	\$ 1,438,049
Noncash Capital Activities				
Contribution of capital assets from capital project funds	<u>\$ 201,108</u>	<u>\$ 553,705</u>	<u>\$ -</u>	<u>\$ 754,813</u>

City of Watford City
Statement of Net Position – Fiduciary Funds
December 31, 2016

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 17,880</u>
Total assets	<u><u>\$ 17,880</u></u>
Liabilities	
Due to others	<u>\$ 17,880</u>
Total liabilities	<u><u>\$ 17,880</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.

McKenzie County Correctional Facility

The City and McKenzie County have entered into a joint powers agreement for the joint administration of a city-county regional correctional center that provides for the best interests of the citizens of McKenzie County and Watford City and promotes cooperation between them. The correctional facility has a governing board that consists of two County Commissioners, two City Council members and one member at large (citizen). The governing board of the correctional facility supervises the administration of expenditures, operations and management of the facility. Employees hired for the operation of the facility are employees of the County. The City is responsible for payment of an agreed upon per diem per inmate held and for payment of medical or health care costs of inmates held on violation of a Watford City ordinance or held at the request of the City.

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 measurable and available only when cash is received by the government.

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Financial Statement Presentation

The City reports the following major governmental funds:

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

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

City Improvements 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.

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

The City reports the following major enterprise funds:

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

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

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, water and sewer funds are classified as restricted assets because their use is limited by bond and loan covenants.

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

Investments

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

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

As of December 31, 2016, 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	20-50 years
Machinery and equipment	5-15 years
Improvements other than buildings	15-40 years

The City reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2016.

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.

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 Council – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements

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

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

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

Internal and Interfund Balances and Activities

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

Property Taxes

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

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

Abatements

A tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to tax a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. As of December 31, 2016, the City of Watford City provided tax abatements in the form of property tax exemptions for properties used for early childhood services, tax increment financing, and properties in the Renaissance Zone.

The Renaissance Zone property tax exemption, NDCC ch.40-63, is for commercial and residential properties located within the renaissance zone that is proposed by the city, approved and designated by the State Department of Commerce. The exemption is to encourage property owners to purchase, rehabilitate or renovate properties in the approved zone. Buildings that are approved for the exemption within the zone will be exempt from property taxes for a period of 5 years.

A city may establish a TIF district by adopting a resolution finding that one or more slum or blighted areas or industrial or commercial properties exist which require development, rehabilitation, or conservation in the public interest. Tax Increment Financing Pursuant to Chapter 40-58, provides a property tax exemption to qualifying properties in this designated district.

Pursuant to NDCC Ch. 57-02-08 where a governing body can grant a property tax exemption for properties used primarily for early childhood services by a corporation, limited liability company, or organization licensed under chapter 50-11.1. The exemption is not available to property used as a residence.

The amount of taxes abated for the year ending December 31, 2016 was as follows:

Tax Abatement Program	Amount
Renaissance Zone Exemptions	\$ 43,940
Early Childhood	22,401
Tax Increment Financing	31,125
	\$ 97,466

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, 2016, the City's carrying amount of deposits was \$54,587,519, the agency fund's carrying amount of deposits was \$17,880, and the bank balance was \$54,620,067. Of the bank balances \$500,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Note 3 - Legal Compliance

Expenditures over Appropriations

At December 31, 2016, the following funds had expenditures that exceeded budgeted appropriations:

General fund	\$ (1,660,861)
Occupancy tax fund	(167,669)
Vector and weed control fund	(32,053)

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, 2016:

<u>Fund</u>	
Governmental funds	
City Events Center	\$ 1,035,007

The deficit will be alleviated by future revenues and transfers in from other funds.

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, 2016, all accounts were considered collectible and accordingly no allowance was recorded.

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

Note 5 - Intergovernmental Receivable

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

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance 1/1/2016	Additions	Transfers	Deletions	Balance 12/31/2016
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 5,062,355	\$ 152,586	\$ -	\$ -	\$ 5,214,941
Construction in progress	73,665,579	71,371,861	(3,760,654)	-	141,276,786
Total capital assets not being depreciated	<u>78,727,934</u>	<u>71,524,447</u>	<u>(3,760,654)</u>	<u>-</u>	<u>146,491,727</u>
Capital assets being depreciated					
Buildings and infrastructure	6,751,897	37,255	-	-	6,789,152
Machinery and equipment	3,935,129	538,116	139,598	(90,136)	4,522,707
Improvements other than buildings	19,312,940	22,559	3,621,056	-	22,956,555
Total capital assets being depreciated	<u>29,999,966</u>	<u>597,930</u>	<u>3,760,654</u>	<u>(90,136)</u>	<u>34,268,414</u>
Less accumulated depreciation					
Buildings and infrastructure	695,910	184,402	-	-	880,312
Machinery and equipment	1,368,066	350,962	-	(33,791)	1,685,237
Improvements other than buildings	1,593,165	567,891	-	-	2,161,056
Total accumulated depreciation	<u>3,657,141</u>	<u>1,103,255</u>	<u>-</u>	<u>(33,791)</u>	<u>4,726,605</u>
Total capital assets being depreciated	<u>26,342,825</u>	<u>(505,325)</u>	<u>3,760,654</u>	<u>(56,345)</u>	<u>29,541,809</u>
Governmental Capital Assets, net	<u>\$ 105,070,759</u>	<u>\$ 71,019,122</u>	<u>\$ -</u>	<u>\$ (56,345)</u>	<u>\$ 176,033,536</u>

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

General government	\$ 324,559
Public safety	179,150
Public works	585,594
Social and economic services	<u>13,952</u>
 Total depreciation expense	 <u><u>\$ 1,103,255</u></u>

	Balance 1/1/2016	Additions	Transfers	Deletions	Balance 12/31/2016
Business-type activities					
Capital assets not being depreciated					
Land	\$ 25,143	\$ -	\$ -	\$ -	\$ 25,143
Construction in progress	39,010,298	9,257,534	(34,056,770)	-	14,211,062
Total capital assets not being depreciated	<u>39,035,441</u>	<u>9,257,534</u>	<u>(34,056,770)</u>	<u>-</u>	<u>14,236,205</u>
Capital assets being depreciated					
Buildings and infrastructure	19,406,183	10,829	34,056,770	-	53,473,782
Machinery and equipment	1,113,625	303,897	-	(164,140)	1,253,382
Improvements other than buildings	2,803,159	-	-	-	2,803,159
Total capital assets being depreciated	<u>23,322,967</u>	<u>314,726</u>	<u>34,056,770</u>	<u>(164,140)</u>	<u>57,530,323</u>
Less accumulated depreciation					
Buildings and infrastructure	1,098,948	625,880	-	-	1,724,828
Machinery and equipment	237,664	86,790	-	(36,615)	287,839
Improvements other than buildings	350,230	106,447	-	-	456,677
Total accumulated depreciation	<u>1,686,842</u>	<u>819,117</u>	<u>-</u>	<u>(36,615)</u>	<u>2,469,344</u>
Total capital assets being depreciated, net	<u>21,636,125</u>	<u>(504,391)</u>	<u>34,056,770</u>	<u>(127,525)</u>	<u>55,060,979</u>
Business-type activities - capital assets, net	<u><u>\$ 60,671,566</u></u>	<u><u>\$ 8,753,143</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (127,525)</u></u>	<u><u>\$ 69,297,184</u></u>

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

Water fund	\$ 213,303
Sewer fund	545,571
Garbage fund	50,362
Surcharge fund	<u>9,881</u>
	<u><u>\$ 819,117</u></u>

Note 7 - Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2016:

Governmental Activities

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Compensated absences	\$ 133,974	\$ 93,860	\$ 114,307	\$ 113,527	\$ 75,000
General Obligation Bonds	620,000	-	45,000	575,000	45,000
Certificates of Indebtedness	27,011,565	26,978,807	409,151	53,581,221	2,121,354
Revenue Bonds	36,985,000	-	685,000	36,300,000	700,000
Plus unamortized premium	3,504,899	-	120,859	3,384,040	120,859
Refunding Improvement Bonds	23,655,000	-	695,000	22,960,000	785,000
Plus unamortized premium	3,073,946	-	161,787	2,912,159	161,787
Total	<u>\$ 94,984,384</u>	<u>\$ 27,072,667</u>	<u>\$ 2,231,104</u>	<u>\$ 119,825,947</u>	<u>\$ 4,009,000</u>

Business-type Activities

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Compensated absences	\$ 46,225	\$ 39,042	\$ 34,611	\$ 50,656	\$ 15,000
Revenue Bonds	20,984,400	8,495,327	486,000	28,993,727	515,713
Total	<u>\$ 21,030,625</u>	<u>\$ 8,534,369</u>	<u>\$ 520,611</u>	<u>\$ 29,044,383</u>	<u>\$ 530,713</u>

Outstanding debt at December 31, 2016 (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

\$ 575,000

Certificates of Indebtedness

\$15,000,000 Certificate of Indebtedness, Series 2015A; due in monthly installments of \$73,906 through December 31, 2026; interest at 3.65% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	\$ 14,872,880
\$30,000,000 Certificate of Indebtedness, Series 2015B; due in monthly installments of \$137,806 through December 31, 2026; interest at 1.85% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	29,763,979
\$3,000,000 Certificate of Indebtedness, Series 2015C; due in monthly installments of \$14,949 through December 31, 2026; interest at 3.65% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	2,988,909
\$6,000,000 Certificate of Indebtedness, Series 2015D; due in monthly installments of \$27,429 through December 31, 2026; interest at 1.85% paid monthly; liquidated out of the debt service funds through transfers in from the general fund	<u>5,955,453</u>
Total Certificates of Indebtedness	<u><u>\$ 53,581,221</u></u>

Revenue Bonds

\$1,630,000 Oil and Gas Tax Revenue Refunding Bonds, Series 2013; due in annual installments of \$124,605 to \$130,811 through May 1, 2028; interest at .6% to 2.95% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund	\$ 1,335,000
\$35,550,000 Sales Tax Revenue Bonds, Series 2015; due in annual installments of \$2,268,375 to \$2,273,125 through June 1, 2045; interest at 2% to 5% paid semi-annually; liquidated out of the debt service funds through transfers in from the general fund	<u>34,965,000</u>
Total Revenue Bonds	<u><u>\$ 36,300,000</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 \$1,544,255. Principal payments of \$100,000 and interest payments of \$11,800 were made in the current year. The oil and gas tax and public domain revenues in the current year were \$10,747,971 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 total principal and interest remaining to be paid on the bonds is \$65,843,000. Principal payments of \$585,000 and interest payments of \$1,687,850 were made in the current year. The sales tax revenues in the current year were \$2,863,399.

Refunding Improvement Bonds

\$23,655,000 Refunding Improvement Bonds, Series 2015; due in annual installments of \$1,811,963 to \$1,880,313 through June 1, 2035; interest at 2% to 5.25% paid semi-annually; liquidated out of the debt service funds	<u>\$ 22,960,000</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	\$ 232,000
\$808,588 Sewer Revenue Bonds, Series 2008; due in annual installments of \$49,125 to \$53,750 through September 1, 2028; interest at 2.5% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund	530,000
\$19,000,000 Sewer Revenue Bonds, Series 2015; due in annual installments of \$769,570 through September 1, 2045; interest at 2% paid semi-annually; liquidated with revenues generated for services provided out of the sewer fund	18,283,523
\$14,000,000 Sewer Revenue Bonds, Series 2015B; \$9,948,204 drawn on bonds at December 31, 2016 with \$4,051,796 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>9,948,204</u>
	<u>\$ 28,993,727</u>

Revenue bonds are issued to finance capital improvement projects in which revenue from operations of such improvement projects or revenue pledged from a designated revenue stream is used to pay the debt service. The City has committed net revenues of the water fund to pay the annual principal and interest requirements on the 2009 water revenue bonds. 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 \$272,000. Principal payments of \$16,000 and interest payments of \$6,200 were made in the current year. The water fund net revenues in the current year were \$96,179.

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 \$620,000. Principal payments of \$35,000 and interest payments of \$14,000 were made in the current year. The sewer fund net revenues in the current year were \$457,762.

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 \$28,231,727 was advanced at December 31, 2016. Principal payments of \$435,000 and interest payments of \$415,000 were made in the current year. The oil and gas production taxes revenue in the current year was \$10,747,971 and the sewer fund net revenues in the current year were \$457,762.

The annual maturity of long-term debt of the City, except compensated absences payable, as of December 31, 2016 is as follows:

Year Ended December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 3,651,354	\$ 4,105,485	\$ 7,756,839	\$ 515,713	\$ 584,880	\$ 1,100,593
2018	3,713,837	3,990,362	7,704,199	744,988	571,981	1,316,969
2019	3,796,598	3,869,502	7,666,100	750,094	556,714	1,306,808
2020	3,864,643	3,757,398	7,622,041	756,304	541,342	1,297,646
2021	3,932,979	3,645,845	7,578,824	761,618	525,841	1,287,459
2022-2026	20,280,900	15,917,902	36,198,802	3,933,643	2,391,190	6,324,833
2027-2031	37,251,539	9,225,065	46,476,604	3,895,553	1,984,942	5,880,495
2032-2036	13,130,000	5,640,000	18,770,000	3,917,215	1,595,471	5,512,686
2037-2041	8,225,000	3,126,875	11,351,875	4,100,285	1,193,993	5,294,278
2042-2046	15,569,371	848,750	16,418,121	9,537,050	718,530	10,255,580
2047	-	-	-	81,264	825	82,089
	<u>\$ 113,416,221</u>	<u>\$ 54,127,184</u>	<u>\$ 167,543,405</u>	<u>\$ 28,993,727</u>	<u>\$ 10,665,709</u>	<u>\$ 39,659,436</u>

The City's bond documents include covenants that, in part, impose maintenance of certain reserve requirements, net operating revenues to debt service ratios and continuing disclosure requirements. The City was in compliance with all financial covenants as of December 31, 2016. However, the City was not in compliance with the continuing disclosure requirements. The failure to comply with the continuing disclosure requirements does not constitute an event of default on the bonds, but the bond holders will have any available remedy at law or in equity and the failure to provide the continuing disclosures must be reported and may adversely affect the transferability and liquidity of the Bonds and their market price.

Note 8 - Transfers

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

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

The following is a list of transfers for the year ending December 31, 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental funds		
General fund	\$ 2,394,084	\$ 5,050,478
Road fund	2,000,000	-
City Improvements fund	-	21,384,201
City Events Center fund	5,799,043	3,625,758
Capital Projects fund	18,165,409	3,235,732
Debt Service fund	10,177,371	999,716
Nonmajor Governmental funds	2,673,879	5,913,901
Water fund	-	333,333
Sewer fund	-	333,333
Nonmajor Enterprise funds	-	333,334
	<u>\$ 41,209,786</u>	<u>\$ 41,209,786</u>
Total transfers		

The transfers in and out during 2016 were budgeted transfers.

Note 9 - Fund Balance

At December 31, 2016, the governmental fund balance classifications are as follows:

	General Fund	Road Fund	City Improvements	City Events Center	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Restricted for								
City improvements	\$ -	\$ -	\$ 13,837,973	\$ -	\$ -	\$ -	\$ -	\$ 13,837,973
Debt service	163,000	-	-	-	-	-	-	163,000
Road projects	-	78,264	-	-	-	-	-	78,264
Committed for								
Capital projects	271,272	-	-	-	-	-	-	271,272
Economic development	-	-	-	-	-	-	620,957	620,957
Assigned for								
General government	-	-	-	-	-	-	403,713	403,713
Public safety	-	-	-	-	-	-	2,175,028	2,175,028
Economic development	-	-	-	-	-	-	4,314,217	4,314,217
Road projects	-	1,529,815	-	-	-	-	-	1,529,815
Capital projects	-	-	-	-	3,765,369	-	-	3,765,369
Debt service	-	-	-	-	-	6,548,880	-	6,548,880
Unassigned	8,592,019	-	-	(1,035,007)	-	-	-	7,557,012
	<u>\$ 9,026,291</u>	<u>\$ 1,608,079</u>	<u>\$ 13,837,973</u>	<u>\$ (1,035,007)</u>	<u>\$ 3,765,369</u>	<u>\$ 6,548,880</u>	<u>\$ 7,513,915</u>	<u>\$ 41,265,500</u>

Note 10 - Pension Plan

The City of Watford City participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. PERS is an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. The following 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 that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. PERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the 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 PERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Contributions

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

Member and Employer Contributions

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

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

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

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

At December 31, 2016, the City of Watford City reported a liability of \$2,939,240 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Watford City's proportion of the net pension liability was based on the City of Watford City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2016, City of Watford City's proportion was 0.301585% percent, which was an increase of 0.05774% from its proportion measured as of July 1, 2015.

For the year ended December 31, 2016, the City of Watford City recognized pension expense of \$483,805. At December 31, 2016, 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	\$ 44,154	\$ 27,215
Change in assumptions	270,960	146,022
Net differences between projected and actual earnings on pension plan investments	410,067	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	578,485	-
Employer contributions subsequent to the measurement date	177,834	-
Total	<u>\$ 1,481,500</u>	<u>\$ 173,237</u>

\$177,834 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, 2017.

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:	
2017	\$ 228,963
2018	228,963
2019	318,417
2020	249,472
2021	104,614
	<u>\$ 1,130,429</u>

Actuarial Assumptions

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

Inflation	3.50%
Salary 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, 2016, funding actuarial valuation for NDPERS.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real 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%	6.60%
International equity	21%	7.30%
Private equity	5%	10.90%
Domestic fixed income	17%	1.49%
International fixed income	5%	-0.45%
Global real assets	20%	5.24%
Cash equivalents	1%	0.00%

Discount Rate

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

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	\$ 4,169,255	\$ 2,939,240	\$ 1,902,888

Pension Plan Fiduciary Net Position

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

Note 11 - Risk Management

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

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

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$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 12 - Correction of Error

Certain errors resulting in misstatements of amounts previously reported for intergovernmental receivables, deferred inflows of resources, retainage payable, revenues and capital contributions as of December 31, 2015, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of January 1, 2016 to correct the errors.

The effects of the restatements are as follows:

	General Fund	Road Fund	Nonmajor Governmental Funds	Total Governmental Funds	Governmental Activities
Fund Balance/Net Position - January 1, as previously reported	\$ 4,733,001	\$ 1,379,728	\$ 10,962,934	\$ 75,118,966	\$ 83,990,370
Restatements					
Understatement of intergovernmental receivables/ revenues	772,172	30,496	270,385	1,073,053	1,073,053
Understatement of deferred inflows of resources/ overstatement of revenues	-	(534,527)	-	(534,527)	(534,527)
Fund Balance/Net Position - January 1, as restated	<u>\$ 5,505,173</u>	<u>\$ 875,697</u>	<u>\$ 11,233,319</u>	<u>\$ 75,657,492</u>	<u>\$ 84,528,896</u>

	Water Fund	Sewer Fund	Total Enterprise Funds	Business-Type Activities
Net Position - January 1, as previously reported	\$ 21,580,579	\$ 27,744,198	\$ 50,381,329	\$ 50,381,329
Restatements				
Overstatement of retainage payable/understatement of capital contributions	127,360	1,222,753	1,350,113	1,350,113
Net Position - January 1, as restated	<u>\$ 21,707,939</u>	<u>\$ 28,966,951</u>	<u>\$ 51,731,442</u>	<u>\$ 51,731,442</u>

Note 13 - Conduit Debt

The City has issued Multifamily Housing Revenue Bonds to provide financial assistance to private-sector entities for the construction of facilities deemed to be in the public interest. The bonds are secured by the financed property and are payable solely from the revenues generated from the facilities. Neither the City, State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2016, there was one series of bonds outstanding with \$8,400,000 available to be drawn on the bonds. As of December 31, 2016, \$1,567,647 had been drawn on the bonds and was outstanding.



Required Supplementary Information
December 31, 2016

City of Watford City

City of Watford City
 Schedule of the Employer's Proportionate Share of Net Pension Liability
 Year Ended December 31, 2016

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

	2016	2015
Employer's proportion of the net pension liability	0.301585%	0.243845%
Employer's proportionate share of the net pension liability	\$ 2,939,240	\$ 1,658,103
Employer's covered-employee payroll	\$ 3,039,267	\$ 2,172,361
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	96.71%	76.33%
Plan fiduciary net position as a percentage of the total pension liability	71.10%	77.70%

* 2015 was the first year of implementation; therefore, complete data for this schedule is not available prior to 2015. The data presented has a measurement date of July 1 each year.

City of Watford City
 Schedule of the Employer's Contributions
 Year Ended December 31, 2016

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

	2016	2015
Contractually required contribution	\$ 350,012	\$ 301,756
Contributions in relation to the contractually required contribution	(350,012)	(301,756)
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll	\$ 3,231,792	\$ 2,785,187
Contributions as a percentage of covered-employee payroll	10.83%	10.83%

* 2015 was the first year of implementation; therefore, complete data for this schedule is not available prior to 2015. The data presented is as of December 31 each year.

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

Changes of assumptions

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

City of Watford City
Statement of Revenues, Expenditures and Changes in Fund Balances – Comparison of Budget and Actual
General Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 761,305	\$ 761,305	\$ 746,659	\$ (14,646)
Licenses and permits	1,425,000	1,425,000	425,419	(999,581)
Intergovernmental revenues	12,322,500	12,322,500	11,440,492	(882,008)
Charges for services	15,500	15,500	71,153	55,653
Fines and forfeitures	35,000	35,000	40,795	5,795
Interest income	50,000	50,000	116,531	66,531
Other income	148,000	148,000	330,724	182,724
Total revenues	<u>14,757,305</u>	<u>14,757,305</u>	<u>13,171,773</u>	<u>(1,585,532)</u>
Expenditures				
Current				
General government	1,746,150	2,483,850	3,959,649	(1,475,799)
Public safety	2,637,550	2,637,550	2,749,598	(112,048)
Public works	-	-	88,153	(88,153)
Social and economic services	212,000	212,000	196,861	15,139
Total expenditures	<u>4,595,700</u>	<u>5,333,400</u>	<u>6,994,261</u>	<u>(1,660,861)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>10,161,605</u>	<u>9,423,905</u>	<u>6,177,512</u>	<u>(3,246,393)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	2,394,084	2,394,084
Transfers out	(8,499,200)	(8,999,200)	(5,050,478)	3,948,722
Total other financing sources and uses	<u>(8,499,200)</u>	<u>(8,999,200)</u>	<u>(2,656,394)</u>	<u>6,342,806</u>
Net change in fund balances	<u>\$ 1,662,405</u>	<u>\$ 424,705</u>	<u>3,521,118</u>	<u>\$ 3,096,413</u>
Fund Balance - Beginning, as previously reported			4,733,001	
Restatement (Note 12)			<u>772,172</u>	
Fund Balance - Beginning, as restated			<u>5,505,173</u>	
Fund Balance - Ending			<u>\$ 9,026,291</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, 2016

City of Watford City

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*..... 1

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 3

Schedule of Expenditures of Federal Awards..... 6

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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, 2016, 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 March 15, 2018.

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 have not been 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 2016-A, 2016-B, 2016-C, and 2016-D 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-D.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
March 15, 2018



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, 2016. 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, 2016.

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 a 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, 2016, 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 March 15, 2018, 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
March 15, 2018

City of Watford City
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2016

<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			
Clean Water State Revolving Funds Cluster			
Capitalization Grants for Clean Water			
State Revolving Funds			
	66.458	N/A	\$ 7,590,647
Total Clean Water State Revolving Funds Cluster			<u>7,590,647</u>
Total Environmental Protection Agency			<u>7,590,647</u>
Total			<u><u>\$ 7,590,647</u></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, 2016.

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 does not draw for indirect administrative expenses and 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?	Yes

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>
Clean Water State Revolving Funds Cluster 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

2016-A Recording of Transactions

Material Weakness in Internal Control over Financial Reporting

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

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

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

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

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

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

2016-B Preparation of Financial Statements

Material Weakness in Internal Control over Financial Reporting

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

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

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

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

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

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

2016-C Segregation of Duties

Material Weakness in Internal Control over Financial Reporting

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

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

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

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

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

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

2016-D Failure to Provide Continuing Disclosure

Material Weakness in Internal Control over Compliance and Material Noncompliance

Criteria – The City’s General Obligation Highway Refunding Bonds of 2013 and Oil and Gas Tax Revenue Bonds of 2013 include continuing disclosure requirements that the City is required to submit to comply with SEC rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934.

Condition – The City did not complete the required continuing disclosures.

Cause – The City was not aware of the continuing disclosure requirements.

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

Recommendation – We recommend that the City implement internal controls to ensure the continuing disclosure requirements are met each year.

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