



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Towner County

Cando, North Dakota

Audit Report for the Years Ended December 31, 2018 and 2017

*Client Code: PS48000*



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Office of the  
State Auditor

# TOWNER COUNTY

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For the Years Ended December 31, 2018 and 2017

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# TOWNER COUNTY

County Officials and Audit Personnel  
December 31, 2018 and 2017

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## COUNTY OFFICIALS

At December 31, 2018

Doug Berg	Commissioner - Chairman
David Lagein	Commissioner - Vice Chairman
Scott Boe	Commissioner
Ken Teubner	Commissioner
Mike Weisz	Commissioner
Joni Morlock	Auditor
Joni Morlock	Treasurer
Robert Kennedy	Sheriff
Jolene Hoffert	Register of Deeds/Clerk of Court
Joshua Frey	State's Attorney

At December 31, 2017

Doug Berg	Commissioner - Chairman
David Lagein	Commissioner - Vice Chairman
Scott Boe	Commissioner
Ken Teubner	Commissioner
Mike Weisz	Commissioner
Joni Morlock	Auditor
Joni Morlock	Treasurer
Robert Kennedy	Sheriff
Jolene Hoffert	Recorder/Clerk of Court
Tom Nikolaisen	State's Attorney

## AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Alex Bakken, CPA	Audit In-Charge



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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**INDEPENDENT AUDITOR’S REPORT**

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Board of County Commissioners  
Towner County  
Cando, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Towner County, North Dakota, as of and for the years ended December 31, 2018 and December 31, 2017, and the related notes to the financial statements, which collectively comprise Towner County’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, each major fund, the discretely presented component units, and the aggregate remaining fund information of Towner County, North Dakota, as of December 31, 2018 and December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As discussed in Note 2 to the financial statements, Towner County adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pensions*, and for the correction of certain prior period errors. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2020 on our consideration of Towner County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Towner County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
February 21, 2020

**TOWNER COUNTY**

Statement of Net Position

December 31, 2018

	Primary	Component Units	
	Government	Water	Health
	Governmental	Resource	District
	Activities	District	District
<b>ASSETS</b>			
Cash and Investments	\$ 4,363,306	\$ 472,395	\$ 129,743
Accounts Receivable	49,703	-	763
Intergovernmental Receivable	164,991	-	55,064
Road Receivables	112,060	-	-
Taxes Receivable	59,130	1,781	2,488
Capital Assets			
Nondepreciable	458,728	-	-
Depreciable, Net	6,561,205	-	-
Total Assets	<u>\$ 11,769,123</u>	<u>\$ 474,176</u>	<u>\$ 188,058</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Derived from Pension and OPEB	\$ 771,449	\$ -	\$ 71,809
<b>LIABILITIES</b>			
Accounts Payable	\$ 308,958	\$ 13,680	\$ -
Salaries Payable	45,933	-	-
Retainage Payable	8,767	-	-
Grants Received in Advance	187,673	-	-
Interest Payable	10,044	-	-
Long-Term Liabilities			
Due Within One Year			
Long Term Debt	172,861	-	-
Compensated Absences Payable	2,987	-	1,264
Due After One Year			
Long Term Debt	462,068	-	-
Compensated Absences Payable	26,878	-	11,373
Net Pension & OPEB Liability	1,910,789	-	153,167
Total Liabilities	<u>\$ 3,136,958</u>	<u>\$ 13,680</u>	<u>\$ 165,804</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Received in Advance	\$ 670,847	\$ -	\$ -
Derived from Pension and OPEB	101,223	-	10,273
Total Deferred Inflows of Resources	<u>\$ 772,070</u>	<u>\$ -</u>	<u>\$ 10,273</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 6,376,237	\$ -	\$ -
Restricted for			
Highways	1,326,135	-	-
Health and Welfare	3,013	-	83,790
Conservation of Natural Resources	59,890	460,496	-
Emergencies	347,745	-	-
Unrestricted	518,524	-	-
Total Net Position	<u>\$ 8,631,544</u>	<u>\$ 460,496</u>	<u>\$ 83,790</u>

The notes to the financial statements are an integral part of this statement.

# TOWNER COUNTY

## Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Primary Government	Component Units	
					Governmental Activities	Water Resource District	Health District
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 1,501,579	\$ 27,738	\$ -	\$ -	\$ (1,473,841)		
Public Safety	798,842	223,103	-	-	(575,739)		
Highways and Bridges	1,404,559	370,155	388,628	361,334	(284,442)		
Flood Repair	422,636	-	422,636	-	-		
Health and Welfare	6,392	5,638	-	-	(754)		
Culture and Recreation	10,730	-	-	-	(10,730)		
Conserv. of Natural Resources	87,102	-	40,317	-	(46,785)		
Economic Development	8,769	-	-	-	(8,769)		
Interest & Fees	20,643	-	-	-	(20,643)		
<b>Total Governmental Activities</b>	<b>\$ 4,261,252</b>	<b>\$ 626,634</b>	<b>\$ 851,581</b>	<b>\$ 361,334</b>	<b>\$ (2,421,703)</b>		
<b>Component Units</b>							
Water Resource District	\$ 68,912	\$ -	\$ 11,095	\$ -	\$ -	\$ (57,817)	\$ 11,095
Health District	269,993	59,525	133,600	-	-	-	(76,868)
<b>Total Component Units</b>	<b>\$ 338,905</b>	<b>\$ 59,525</b>	<b>\$ 144,695</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (57,817)</b>	<b>\$ (65,773)</b>
<b>General Revenues</b>							
Property Taxes					\$ 1,937,120	\$ 59,890	\$ 80,795
State Grants/Aid - Unrestricted					331,074	-	-
Other Unrestricted Grant Income					13,364	-	-
Gain on Sale of Capital Assets					20,036	-	-
Unrestricted Investment Earnings					26,398	-	110
Miscellaneous Revenue					77,096	1,849	-
<b>Total General Revenues</b>					<b>\$ 2,405,088</b>	<b>\$ 61,739</b>	<b>\$ 80,905</b>
<b>Change in Net Position</b>					<b>\$ (16,615)</b>	<b>\$ 3,922</b>	<b>\$ 4,037</b>
<b>Net Position - January 1</b>					<b>\$ 8,648,159</b>	<b>\$ 456,574</b>	<b>\$ 79,753</b>
<b>Net Position - December 31</b>					<b>\$ 8,631,544</b>	<b>\$ 460,496</b>	<b>\$ 83,790</b>

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Balance Sheet – Governmental Funds  
 December 31, 2018

	General	Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 1,563,484	\$ 2,799,822	\$ 4,363,306
Accounts Receivable	28,037	21,666	49,703
Intergovernmental Receivable	120,042	44,949	164,991
Road Receivables	-	112,060	112,060
Taxes Receivable	33,657	25,473	59,130
<b>Total Assets</b>	<b>\$ 1,745,220</b>	<b>\$ 3,003,970</b>	<b>\$ 4,749,190</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 89,668	\$ 219,290	\$ 308,958
Salaries Payable	29,427	16,506	45,933
Grants Received in Advance	-	187,673	187,673
<b>Total Liabilities</b>	<b>\$ 119,095</b>	<b>\$ 423,469</b>	<b>\$ 542,564</b>
<b>Deferred Inflows of Resources</b>			
Taxes Receivable	\$ 33,657	\$ 25,473	\$ 59,130
Road Receivables	-	112,060	112,060
Taxes Received In Advance	418,671	252,176	670,847
<b>Total Deferred Inflows of Resources</b>	<b>\$ 452,328</b>	<b>\$ 389,709</b>	<b>\$ 842,037</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 571,423</b>	<b>\$ 813,178</b>	<b>\$ 1,384,601</b>
<b>Fund Balances</b>			
<b>Restricted</b>			
Highways and Bridges	\$ -	\$ 1,731,544	\$ 1,731,544
Health and Welfare	-	1,043	1,043
Conservation of Natural Resources	-	111,593	111,593
Emergency	-	346,612	346,612
Unassigned	1,173,797	-	1,173,797
<b>Total Fund Balances</b>	<b>\$ 1,173,797</b>	<b>\$ 2,190,792</b>	<b>\$ 3,364,589</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,745,220</b>	<b>\$ 3,003,970</b>	<b>\$ 4,749,190</b>

The notes to the financial statements are an integral part of this statement.



**TOWNER COUNTY**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
December 31, 2018

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**Total Fund Balances for Governmental Funds** \$ 3,364,589

Total *net position* reported for government activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 7,019,933

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenues in the funds.

Property Taxes Receivable	\$ 59,130	
Road Department Accounts Receivable	<u>112,060</u>	171,190

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions and OPEB	\$ 771,449	
Deferred Inflows Related to Pensions and OPEB	<u>(101,223)</u>	670,226

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term- are reported in the statement of net position.

Long Term Debt	\$ (634,929)	
Interest Payable	(10,044)	
Retainages Payable	(8,767)	
Compensated Absences	(29,865)	
Net Pension and OPEB Liability	<u>(1,910,789)</u>	<u>(2,594,394)</u>

Total Net Position of Governmental Activities \$ 8,631,544

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
 For the Year Ended December 31, 2018

	General	Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,127,764	\$ 796,410	\$ 1,924,174
Intergovernmental	344,438	851,581	1,196,019
Licenses, Permits and Fees	1,400	-	1,400
Charges for Services	244,410	370,155	614,565
Fines and Forfeitures	2,269	-	2,269
Interest Income	25,293	1,105	26,398
Miscellaneous	16,722	60,374	77,096
<b>Total Revenues</b>	<b>\$ 1,762,296</b>	<b>\$ 2,079,625</b>	<b>\$ 3,841,921</b>
<b>EXPENDITURES</b>			
Current			
General Government	\$ 1,329,270	\$ 102,001	\$ 1,431,271
Public Safety	669,150	42,602	711,752
Highways and Bridges	-	1,235,005	1,235,005
Flood Repair	-	422,636	422,636
Health and Welfare	1,264	5,128	6,392
Culture and Recreation	10,730	-	10,730
Conserv. of Natural Resources	-	70,340	70,340
Economic Development	8,769	-	8,769
Debt Service			
Principal	-	403,423	403,423
Interest and Fees	-	21,338	21,338
<b>Total Expenditures</b>	<b>\$ 2,019,183</b>	<b>\$ 2,302,473</b>	<b>\$ 4,321,656</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (256,887)	\$ (222,848)	\$ (479,735)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ 29,615	\$ 151,712	\$ 181,327
Lease Financing	-	321,633	321,633
Sale Of Assets	-	92,000	92,000
Transfers Out	(1,712)	(179,615)	(181,327)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 27,903</b>	<b>\$ 385,730</b>	<b>\$ 413,633</b>
<b>Net Change in Fund Balances</b>	<b>\$ (228,984)</b>	<b>\$ 162,882</b>	<b>\$ (66,102)</b>
Fund Balances - January 1	\$ 1,402,781	\$ 2,027,910	\$ 3,430,691
Fund Balances - December 31	<b>\$ 1,173,797</b>	<b>\$ 2,190,792</b>	<b>\$ 3,364,589</b>

The notes to the financial statements are an integral part of this statement.

# TOWNER COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ (66,102)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	\$ 768,109	
Current Year Depreciation Expense	<u>(504,570)</u>	263,539

In the statement of activities, only the gain on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.

Gain on Sale of Capital Assets	\$ 20,036	
Proceeds from Sale of Capital Assets	<u>(92,000)</u>	(71,964)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of long-term debt provides current financial resources to governmental funds, however, the debt principal issued increases liabilities in the statement of net position.

Repayment of Debt	\$ 403,423	
Lease Issuance	<u>(321,633)</u>	81,790

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.

Increase in Compensated Absences	\$ (1,552)	
Decrease in Interest Payable	<u>695</u>	(9,624)

The net pension & OPEB liability, and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these items do not involve current financial resources, and are not reported in the funds.

Increase in Net Pension & OPEB Liability	\$ (103,832)	
Decrease in Deferred Outflows of Resources	(83,167)	
Increase in Deferred Inflows of Resources	<u>(48,601)</u>	(235,600)

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.

Increase in Taxes Receivable	\$ 12,946	
Increase in Road Receivable	<u>8,400</u>	<u>21,346</u>

**Change in Net Position of Governmental Activities** \$ (16,615)

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Statement of Net Position

December 31, 2017

	Primary	Component Units	
	Government	Water	Health
	Governmental	Resource	Health
	Activities	District	District
<b>ASSETS</b>			
Cash and Investments	\$ 4,449,273	\$ 454,719	\$ 152,503
Accounts Receivable	7,021	-	1,041
Intergovernmental Receivable	292,574	-	6,555
Road Receivables	103,660	-	-
Taxes Receivable	46,184	1,855	1,676
Capital Assets			
Nondepreciable	12,250	-	-
Depreciable, Net	6,816,108	-	-
Total Assets	<u>\$ 11,727,070</u>	<u>\$ 456,574</u>	<u>\$ 161,775</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Derived from Pension and OPEB	\$ 854,616	\$ -	\$ 70,031
<b>LIABILITIES</b>			
Accounts Payable	\$ 49,688	\$ -	\$ -
Salaries Payable	41,927	-	-
Grants Received in Advance	568,800	-	-
Interest Payable	10,739	-	-
Long-Term Liabilities			
Due Within One Year			
Long Term Debt	178,693	-	-
Compensated Absences Payable	2,831	-	1,147
Due After One Year			
Long Term Debt	538,026	-	-
Compensated Absences Payable	25,482	-	10,320
Net Pension & OPEB Liability	1,806,957	-	133,734
Total Liabilities	<u>\$ 3,223,143</u>	<u>\$ -</u>	<u>\$ 145,201</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Received in Advance	\$ 657,762	\$ -	\$ -
Derived from Pension and OPEB	52,622	-	6,852
Total Deferred Inflows Of Resources	<u>\$ 710,384</u>	<u>\$ -</u>	<u>\$ 6,852</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 6,111,639	\$ -	\$ -
Restricted for			
Highways	1,263,545	-	-
Health and Welfare	6,813	-	79,753
Conservation of Natural Resources	61,999	456,574	-
Emergencies	316,889	-	-
Unrestricted	887,274	-	-
Total Net Position	<u>\$ 8,648,159</u>	<u>\$ 456,574</u>	<u>\$ 79,753</u>

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Statement of Activities

For the Year Ended December 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Component Units	
				Governmental Activities	Water Resource District	Health District
<b>Primary Government</b>						
Governmental Activities						
General Government	\$ 1,351,140	\$ 28,345	\$ -	\$ (1,322,795)		
Public Safety	580,699	187,847	-	(392,852)		
Highways and Bridges	1,758,532	425,776	422,261	(910,495)		
Flood Repair	-	3,710	18,449	22,159		
Health and Welfare	223,889	-	-	(223,889)		
Culture and Recreation	11,716	-	-	(11,716)		
Conserv. of Natural Resources	51,377	-	53,415	2,038		
Economic Development	8,000	-	-	(8,000)		
Long-Term Debt	17,136	-	-	(17,136)		
<b>Total Governmental Activities</b>	<b>\$ 4,002,489</b>	<b>\$ 645,678</b>	<b>\$ 494,125</b>	<b>\$ (2,862,686)</b>		
<b>Component Units</b>						
Water Resource District	\$ 54,244	\$ -	\$ -	\$ -	\$ (54,244)	\$ -
Health District	242,762	69,015	88,388	-	-	(85,359)
<b>Total Component Units</b>	<b>\$ 297,006</b>	<b>\$ 69,015</b>	<b>\$ 88,388</b>	<b>\$ -</b>	<b>\$ (54,244)</b>	<b>\$ (85,359)</b>
<b>General Revenues</b>						
Property Taxes				\$ 2,032,904	\$ 57,916	\$ 78,314
State Grants/Aid - Unrestricted				223,634	-	-
Other Unrestricted Grant Income				19,175	-	-
Loss on Sale of Capital Assets				(22,375)	-	-
Unrestricted Investment Earnings				9,144	865	109
Miscellaneous Revenue				55,286	-	-
<b>Change in Net Position</b>				<b>\$ (544,918)</b>	<b>\$ 4,537</b>	<b>\$ (6,936)</b>
<b>Net Position - January 1</b>				<b>\$ 9,273,568</b>	<b>\$ 452,037</b>	<b>\$ 92,726</b>
<b>Prior Period Adjustment</b>				<b>\$ (80,491)</b>	<b>\$ -</b>	<b>\$ (6,037)</b>
<b>Net Position - January 1, as Restated</b>				<b>\$ 9,193,077</b>	<b>\$ 452,037</b>	<b>\$ 86,689</b>
<b>Net Position - December 31</b>				<b>\$ 8,648,159</b>	<b>\$ 456,574</b>	<b>\$ 79,753</b>

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Balance Sheet – Governmental Funds

December 31, 2017

	General	Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 1,730,358	\$ 2,718,915	\$ 4,449,273
Accounts Receivable	5,410	1,611	7,021
Intergovernmental Receivable	106,409	186,165	292,574
Road Receivables	-	103,660	103,660
Taxes Receivable	22,689	23,495	46,184
Total Assets	<u>\$ 1,864,866</u>	<u>\$ 3,033,846</u>	<u>\$ 4,898,712</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Accounts Payable	\$ 27,806	\$ 21,882	\$ 49,688
Salaries Payable	27,694	14,233	41,927
Grants Received in Advance	-	568,800	568,800
Total Liabilities	<u>\$ 55,500</u>	<u>\$ 604,915</u>	<u>\$ 660,415</u>
Deferred Inflows of Resources			
Taxes Receivable	\$ 22,689	\$ 23,495	\$ 46,184
Road Receivables	-	103,660	103,660
Taxes Received in Advance	383,896	273,866	657,762
Total Deferred Inflows of Resources	<u>\$ 406,585</u>	<u>\$ 401,021</u>	<u>\$ 807,606</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 462,085</u>	<u>\$ 1,005,936</u>	<u>\$ 1,468,021</u>
Fund Balances			
Restricted			
Highways and Bridges	\$ -	\$ 1,611,386	\$ 1,611,386
Health and Welfare	-	357	357
Conservation of Natural Resources	-	99,278	99,278
Emergency	-	316,889	316,889
Unassigned	1,402,781	-	1,402,781
Total Fund Balances	<u>\$ 1,402,781</u>	<u>\$ 2,027,910</u>	<u>\$ 3,430,691</u>
Total Liabilities and Fund Balances	<u>\$ 1,864,866</u>	<u>\$ 3,033,846</u>	<u>\$ 4,898,712</u>

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
December 31, 2017

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**Total Fund Balances for Governmental Funds** \$ 3,430,691

Total *net position* reported for government activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 6,828,358

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenues in the funds.

Property Taxes Receivable	\$ 46,184	
Road Department Accounts Receivable	<u>103,660</u>	149,844

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions and OPEB	\$ 854,616	
Deferred Inflows Related to Pensions and OPEB	<u>(52,622)</u>	801,994

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term- are reported in the statement of net position.

Long Term Debt	\$ (716,719)	
Interest Payable	(10,739)	
Compensated Absences	(28,313)	
Net Pension Liability	<u>(1,806,957)</u>	<u>(2,562,728)</u>

Total Net Position of Governmental Activities \$ 8,648,159

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
 For the Year Ended December 31, 2017

	General	Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,026,516	\$ 1,002,530	\$ 2,029,046
Intergovernmental	242,809	494,125	736,934
Licenses, Permits and Fees	1,915	-	1,915
Charges for Services	217,474	380,140	597,614
Fines and Forfeitures	513	-	513
Interest Income	8,350	794	9,144
Miscellaneous	10,688	44,598	55,286
<b>Total Revenues</b>	<b>\$ 1,508,265</b>	<b>\$ 1,922,187</b>	<b>\$ 3,430,452</b>
<b>EXPENDITURES</b>			
Current			
General Government	\$ 1,138,148	\$ 151,943	\$ 1,290,091
Public Safety	504,200	75,999	580,199
Highways and Bridges	-	1,954,314	1,954,314
Health and Welfare	4,652	219,237	223,889
Culture and Recreation	11,716	-	11,716
Conserv. of Natural Resources	-	62,621	62,621
Economic Development	8,000	-	8,000
Debt Service			
Principal	-	224,112	224,112
Interest and Fees	-	11,212	11,212
<b>Total Expenditures</b>	<b>\$ 1,666,716</b>	<b>\$ 2,699,438</b>	<b>\$ 4,366,154</b>
Excess (Deficiency) of Revenues Over Expenditures	<b>\$ (158,451)</b>	<b>\$ (777,251)</b>	<b>\$ (935,702)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ 110,218	\$ 229,625	\$ 339,843
Lease Financing	-	536,322	536,322
Sale of Assets	-	160,915	160,915
Transfers Out	-	(339,843)	(339,843)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 110,218</b>	<b>\$ 587,019</b>	<b>\$ 697,237</b>
<b>Net Change in Fund Balances</b>	<b>\$ (48,233)</b>	<b>\$ (190,232)</b>	<b>\$ (238,465)</b>
Fund Balances - January 1	\$ 1,451,014	\$ 2,218,142	\$ 3,669,156
Fund Balances - December 31	<b>\$ 1,402,781</b>	<b>\$ 2,027,910</b>	<b>\$ 3,430,691</b>

The notes to the financial statements are an integral part of this statement.



**TOWNER COUNTY**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2017

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**Net Change in Fund Balances - Total Governmental Funds** \$ (238,465)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	\$ 821,126	
Current Year Depreciation Expense	<u>(483,374)</u>	337,752

In the statement of activities, only the loss on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.

Loss on Sale of Capital Assets	\$ (22,375)	
Proceeds from Sale of Capital Assets	<u>(160,915)</u>	(183,290)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of long-term debt provides current financial resources to governmental funds, however, the debt principal issued increases liabilities in the statement of net position.

Repayment of Debt	\$ 224,112	
Lease Issuance	<u>(536,322)</u>	(312,210)

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.

Increase in Compensated Absences	\$ (1,757)	
Increase in Interest Payable	<u>(5,924)</u>	(7,681)

The net pension & OPEB liability, and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these items do not involve current financial resources, and are noreported in the funds.

Increase in Net Pension & OPEB Liability	\$ (732,250)	
Increase in Deferred Outflows of Resources	535,755	
Decrease in Deferred Inflows of Resources	<u>5,977</u>	(190,518)

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.

Increase in Taxes Receivable	\$ 3,858	
Increase in Road Receivable	<u>45,636</u>	<u>49,494</u>

**Change in Net Position of Governmental Activities** \$ (544,918)

The notes to the financial statements are an integral part of this statement.

**TOWNER COUNTY**Statement of Fiduciary Assets and Liabilities – Agency Funds  
December 31, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and Investments	<u>\$ 1,180,548</u>	<u>\$ 1,086,038</u>
<b>LIABILITIES</b>		
Due to Other Governments	<u>\$ 1,180,548</u>	<u>\$ 1,086,038</u>

The notes to the financial statements are an integral part of this statement.

# TOWNER COUNTY

Notes to the Financial Statements

For the Year Ended December 31, 2018 and 2017

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## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Towner County (hereafter referred to as "County") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

### Reporting Entity

The accompanying financial statements present the activities of the County. The County has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the County are such that exclusion would cause its 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 County 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 County.

Based on these criteria, the component units discussed below are included within the County's reporting entity because of the significance of its operational or financial relationship with the County.

### Component Units

In conformity with accounting principles generally accepted in the United States of America, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

**Discretely Presented Component Units:** The component unit columns in the government wide financial statements include the financial data of the County's two component units. These units are reported in separate columns to emphasize that they are legally separate from the County.

**Towner County Health District -** The County's governing board appoints a voting majority of the members of the Health District's board. The County has the authority to approve or modify the Health District authority's operational and capital budgets. The County also must approve the tax levy established by the Health District.

**Towner County Water Resource District -** The County's governing board appoints a voting majority of the members of the water resource district's board. The County has the authority to approve or modify the water resource district's operational and capital budgets. The County also must approve the tax levy established by the water resource district.

### Basis of Presentation

**Government-wide statements.** The statement of net position and the statement of activities display information about the primary government, the County, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category, *governmental* and *fiduciary*, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

## TOWNER COUNTY

### Notes to the Financial Statements – Continued

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The County reports the following major governmental funds:

General Fund - This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Additionally, the County reports the following fund type:

*Agency Funds.* These funds account for assets by the County in a custodial capacity as an agent on behalf of others. The County's agency funds are used to account for property taxes collected on behalf of other governments.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government-Wide and Fiduciary Fund Financial Statements.* The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 County considers revenues to be available if they are collected within sixty days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

All revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.

### **Cash, Cash Equivalents, and Investments**

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of 3 months or less.

### **Capital Assets**

Capital assets include plant and equipment. Assets are reported in the governmental activities' column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

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Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	50
Equipment	5 - 20
Small Equipment	3 - 10
Infrastructure	50

**Compensated Absences**

Vacation leave is earned at the rate of 5 to 15 days per year depending on years of service. Vacation leave may be carried over from one year to the next, but it must be used within 15 months from when earned; if not used within that time frame, the employee will forfeit the unused time. Upon termination vacation benefits that have accrued through the last day of work will be paid. Employees accrue sick leave benefits at the rate of 12 days per year. Unused sick leave benefits will be allowed to accumulate to a limit of 60 days.

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

**Pension**

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

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

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

**Fund Balances**

*Fund Balance Spending Policy.* It is the policy of the County to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

*Minimum Fund Balance Policy/Budget Stabilization.* The County adopted a minimum fund balance policy for the general fund to protect against cash flow shortfalls related to timing of project revenues and receipts and to maintain a budget stabilization commitment. The County intends to maintain a minimum unassigned fund balance in its general fund of \$550,000, but not less than 15% of annual general fund expenditures.

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

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When fund balance falls below 15% range, the County will replenish shortages/deficiencies using the budget strategies and time frames described below:

- a. Reduce recurring expenditures to eliminate any structural deficit, or
  - b. Increase revenues or pursue other funding sources, or
  - c. Some combination of the two options above
- 
- Deficiency resulting in a minimum fund balance between 12.5 percent and 15 percent shall be replenished over a period not exceeding one year
  - Deficiency resulting in a minimum fund balance between 10 percent and 12.5 percent shall be replenished over a period not to exceed 3 years
  - Deficiency resulting in a minimum fund balance of less than 10 percent shall be replenished over a period not to exceed five years

Unassigned fund balance of the general fund balance at December 31, 2018 and December 31, 2017 of \$1,157,022 and \$1,402,781, respectively, was 57% and 84% of 2018 and 2017 general fund expenditures, respectively.

*Restricted Fund Balances.* Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3<sup>rd</sup> parties (state and federal governments for various grants & reimbursements).

*Unassigned Fund Balances.* Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

**Net Position**

When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

**Interfund Transactions**

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

**NOTE 2: PRIOR PERIOD ADJUSTMENTS**

**Change in Accounting Principle – GASB 75 - OPEB:**

Net position as of January 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financing Reporting for Postemployment Benefit Plans Other than Pensions*.

The result of implementing GASB 75 reduced beginning net position for the governmental and business-type activities of the County, which consists of the net OPEB liability related to the North Dakota Public Employees Retirement System (NDPERS).

**Prior Period Errors**

Adjustments to beginning net position are as follows:

<b>Primary Government</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 9,273,568
Adjustments to Restate the January 1, 2017 Net Position	
Net OPEB Liability	(80,491)
Net Position January 1, as restated	\$ 9,193,077

<b>Health District</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 92,726
Adjustments to Restate the January 1, 2017 Net Position	
Net OPEB Liability	(6,037)
Net Position January 1, as restated	\$ 86,689

**NOTE 3: DEPOSITS**

**Custodial Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution’s failure, the County would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The County does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2018, the County’s carrying amount of deposits totaled \$5,543,853, and the bank balances totaled \$5,348,609. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution’s agent in the government’s name.

## **TOWNER COUNTY**

### Notes to the Financial Statements – Continued

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At year ended December 31, 2018, the Towner County Water Resource District's carrying amount of deposits totaled \$472,395, and the bank balances totaled \$472,395. Of the deposits, a total of \$3,217 was not covered by FDIC Insurance, and the remaining covered by Federal Depository Insurance.

At year ended December 31, 2018, the Towner County Health District carrying amount of deposits totaled \$129,742, and the bank balances totaled \$141,412. All of the bank balances were covered by Federal Depository Insurance.

At year ended December 31, 2017, the County's carrying amount of deposits totaled \$5,535,310, and the bank balances totaled \$5,619,808. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2017, the Towner County Water Resource District's carrying amount of deposits totaled \$454,718, and the bank balances totaled \$455,019. Of the deposits, a total of \$2,350 was not covered by FDIC Insurance, and the remaining covered by Federal Depository Insurance.

At year ended December 31, 2017, the Towner County Job Development Authority's carrying amount of deposits totaled \$152,503, and the bank balances totaled \$158,986. All of the bank balances were covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The County does not have a formal deposit policy that limits maturities as a means of managing exposure to potential fair value losses arising from increasing interest rates.

As authorized in North Dakota Statutes, idle funds may be invested as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct 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 the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

The County does not have any investments subject to interest rate risk.

#### **NOTE 4: PROPERTY TAXES**

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.



**TOWNER COUNTY**

Notes to the Financial Statements – Continued

**NOTE 5: CAPITAL ASSETS**

**Primary Government**

The following is a summary of changes in capital assets for the year ended December 31, 2018 and 2017:

<b>Primary Government - 2018</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
Capital Assets Not Being Depreciated				
Land	\$ 12,250	\$ -	\$ -	\$ 12,250
Construction in Progress	-	446,478	-	446,478
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 12,250</b>	<b>\$ 446,478</b>	<b>\$ -</b>	<b>\$ 458,728</b>
Capital Assets, Being Depreciated				
Buildings	\$ 392,500	\$ -	\$ -	\$ 392,500
Equipment	3,173,121	321,631	179,908	3,314,844
Small Equipment	76,881	-	-	76,881
Infrastructure	5,836,582	-	-	5,836,582
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 9,479,084</b>	<b>\$ 321,631</b>	<b>\$ 179,908</b>	<b>\$ 9,620,807</b>
Less Accumulated Depreciation				
Buildings	\$ 363,184	\$ 1,227	\$ -	\$ 364,411
Equipment	1,448,534	356,926	107,944	1,697,516
Small Equipment	70,269	502	-	70,771
Infrastructure	780,989	145,915	-	926,904
<b>Total Accumulated Depreciation</b>	<b>\$ 2,662,976</b>	<b>\$ 504,570</b>	<b>\$ 107,944</b>	<b>\$ 3,059,602</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 6,816,108</b>	<b>\$ (182,939)</b>	<b>\$ 71,964</b>	<b>\$ 6,561,205</b>
<b>Capital Assets - Net</b>	<b>\$ 6,828,358</b>	<b>\$ 263,539</b>	<b>\$ 71,964</b>	<b>\$ 7,019,933</b>

<b>Primary Government - 2017</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
Capital Assets Not Being Depreciated				
Land	\$ 12,250	\$ -	\$ -	\$ 12,250
Capital Assets, Being Depreciated				
Buildings	\$ 392,500	\$ -	\$ -	\$ 392,500
Equipment	2,790,098	821,126	438,103	3,173,121
Small Equipment	76,881	-	-	76,881
Infrastructure	5,836,582	-	-	5,836,582
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 9,096,061</b>	<b>\$ 821,126</b>	<b>\$ 438,103</b>	<b>\$ 9,479,084</b>
Less Accumulated Depreciation				
Buildings	\$ 361,957	\$ 1,227	\$ -	\$ 363,184
Equipment	1,367,618	335,729	254,813	1,448,534
Small Equipment	69,766	503	-	70,269
Infrastructure	635,074	145,915	-	780,989
<b>Total Accumulated Depreciation</b>	<b>\$ 2,434,415</b>	<b>\$ 483,374</b>	<b>\$ 254,813</b>	<b>\$ 2,662,976</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 6,661,646</b>	<b>\$ 337,752</b>	<b>\$ 183,290</b>	<b>\$ 6,816,108</b>
<b>Capital Assets - Net</b>	<b>\$ 6,673,896</b>	<b>\$ 337,752</b>	<b>\$ 183,290</b>	<b>\$ 6,828,358</b>

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

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

<b>Primary Government</b>	<b>2018</b>	<b>2017</b>
Public Safety	\$ 27,599	\$ 27,599
Highways and bridges	6,081	6,081
Conservation of Natural Resources	470,890	449,694
<b>Total Depreciation Expense</b>	<b>\$ 504,570</b>	<b>\$ 483,374</b>

**NOTE 6: LONG-TERM LIABILITIES**

**Primary Government**

During the year ended December 31, 2018 and 2017, the following changes occurred in governmental activities long-term liabilities:

<b>Primary Government - 2018</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
Long-Term Debt					
Capital Leases Payable	\$ 716,719	\$ 321,633	\$ 403,423	\$ 634,929	\$ 172,861
Compensated Absences *	28,313	1,552	-	29,865	2,987
Net Pension and OPEB Liability	1,806,957	103,832	-	1,910,789	-
<b>Total Primary Government</b>	<b>\$ 2,551,989</b>	<b>\$ 427,017</b>	<b>\$ 403,423</b>	<b>\$ 2,575,583</b>	<b>\$ 175,848</b>

<b>Primary Government - 2017</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
Long-Term Debt					
Capital Leases Payable	404,509	536,322	224,112	716,719	178,693
Compensated Absences *	\$ 26,556	\$ 1,757	\$ -	\$ 28,313	\$ 2,831
Net Pension and OPEB Liability	1,074,707	732,250	-	1,806,957	-
<b>Total Primary Government</b>	<b>\$ 1,505,772</b>	<b>\$ 1,270,329</b>	<b>\$ 224,112</b>	<b>\$ 2,551,989</b>	<b>\$ 181,524</b>

\* The change to compensated absences are the net changes for the year.

Debt service requirements on long-term debt is as follows:

<b>Year Ending Dec 31</b>	<b>Leases Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2019	\$ 172,861	\$ 18,061
2020	152,725	13,736
2021	125,967	9,303
2022	97,095	5,630
2023	57,240	2,760
2024 - 2028	29,041	958
<b>Total</b>	<b>\$ 634,929</b>	<b>\$ 50,448</b>

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

**Discretely Presented Component Unit**

During the year ended December 31, 2018 and 2017, the following changes occurred in governmental long-term liabilities of the Health District:

<b>Health Unit - 2018</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
Compensated Absences *	\$ 11,467	\$ 1,170	\$ -	\$ 12,637	\$ 1,264
Net Pension and OPEB Liability	133,734	19,433	-	153,167	-
<b>Total Primary Government</b>	<b>\$ 145,201</b>	<b>\$ 20,603</b>	<b>\$ -</b>	<b>\$ 165,804</b>	<b>\$ 1,264</b>

<b>Health Unit - 2017</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
Compensated Absences *	\$ 5,127	\$ 6,340	\$ -	\$ 11,467	\$ 1,147
Net Pension and OPEB Liability	62,035	71,699	-	133,734	-
<b>Total Primary Government</b>	<b>\$ 67,162</b>	<b>\$ 78,039</b>	<b>\$ -</b>	<b>\$ 145,201</b>	<b>\$ 1,147</b>

**NOTE 7: PENSION PLAN**

**General Information about the NDPERS Pension Plan**

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

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

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

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

**Pension Benefits**

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

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

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

**Refunds of Member Account Balance**

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

**Member and Employer Contributions**

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

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

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

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

At December 31, 2018 and 2017, the following net pension liabilities were reported:

	2018	2017
Primary Government	\$ 1,830,583	\$ 1,726,769
Health District	146,738	127,799

The net pension liability was measured as of June 30, 2018 and 2017 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018 and 2017, the entities had the following proportions, change in proportions, and pension expense:

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

	<b>Proportion</b>	<b>Increase (Decrease) in Proportion from June 30, 2018 and 2017 Measurement</b>	<b>Pension Expense</b>
<b>Primary Government</b>			
2018	0.108472%	0.001041%	\$ 317,918
2017	0.107431%	0.005418%	276,853
<b>Health District</b>			
2018	0.008695%	0.000744%	\$ 27,685
2017	0.007951%	0.002197%	21,597

At December 31, 2018 and 2017, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>Primary Government - 2018</b>		
Differences Between Expected and Actual Experience	\$ 4,846	\$ 62,280
Changes in Assumptions	660,802	26,128
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	8,906
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	50,320	-
Contributions - Employer	40,083	-
<b>Total</b>	<b>\$ 756,051</b>	<b>\$ 97,314</b>

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>Primary Government - 2017</b>		
Differences Between Expected and Actual Experience	\$ 10,264	\$ 8,413
Changes in Assumptions	708,092	38,947
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	23,224	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	61,265	-
Contributions - Employer	37,953	-
<b>Total</b>	<b>\$ 840,798</b>	<b>\$ 47,360</b>

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>Public Health District - 2018</b>		
Differences Between Expected and Actual Experience	\$ 389	\$ 4,992
Changes in Assumptions	52,969	2,094
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	714
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	16,059	2,092
Contributions - Employer	1,180	-
<b>Total</b>	<b>\$ 70,597</b>	<b>\$ 9,892</b>

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

<b>Public Health District - 2017</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 760	\$ 623
Changes in Assumptions	52,406	2,882
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	1,719	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	13,468	2,847
Contributions - Employer	1,021	-
<b>Total</b>	<b>\$ 69,374</b>	<b>\$ 6,352</b>

\$40,083 for the county and \$1,180 for the Health District was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

	<b>Primary Government</b>	<b>Public Health District</b>
2019	\$ 204,335	\$ 18,581
2020	179,904	16,629
2021	148,627	14,545
2022	80,631	8,871
2023	5,157	899

**Actuarial Assumptions**

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

Inflation	2.50%	
	Service at Beginning of Year	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%
	Age	
	Under 30	10.00%
	30 - 39	7.50%
	40 - 49	6.75%
	50 - 59	6.50%
	60+	5.25+
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long -Term Expected Real Rate of Return</b>
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.2%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

**Discount Rate**

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

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

**Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount rate**

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate.

<b>Proportionate Share of the Net Pension Liability</b>	<b>1% Decrease (5.32%)</b>	<b>Current Discount Rate (6.32%)</b>	<b>1% Increase (7.32%)</b>
Primary Government	\$ 2,487,422	\$ 1,830,583	\$ 1,282,472
Public Health District	199,389	146,738	102,802

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

**Pension Plan Fiduciary Net Position**

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

**NOTE 8: OPEB PLAN**

**General Information about the OPEB Plan**

**North Dakota Public Employees Retirement System**

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

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

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

**OPEB Benefits**

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

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

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

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

At December 31, 2018 and 2017, the following net OPEB liabilities were reported:

	<b>2018</b>	<b>2017</b>
Primary Government	\$ 80,206	\$ 80,188
Health District	6,429	5,935



**TOWNER COUNTY**

Notes to the Financial Statements – Continued

The net OPEB liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018 and 2017, the entities had the following proportions, change in proportions, and pension expense:

	<b>Proportion</b>	<b>Increase (Decrease) in Proportion from June 30, 2018 and 2017 Measurement</b>	<b>OPEB Expense</b>
<b>Primary Government</b>			
2018	0.101840%	0.000466%	\$ 9,824
2017	0.101374%	0.101374%	9,623
<b>Health District</b>			
2018	0.101374%	0.000660%	\$ 837
2017	0.007503%	0.007503%	694

At December 31, 2018 and 2017, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

<b>Primary Government - 2018</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 2,399	\$ 1,657
Changes of Assumptions	6,581	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	-	1,725
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	-	527
Contributions - Employer	6,418	-
<b>Total</b>	<b>\$ 15,398</b>	<b>\$ 3,909</b>

<b>Public Health District - 2018</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 193	\$ 133
Changes of Assumptions	527	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	-	138
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	397	110
Contributions - Employer	95	-
<b>Total</b>	<b>\$ 1,212</b>	<b>\$ 381</b>

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

<b>Primary Government - 2017</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ -	\$ 1,956
Changes of Assumptions	7,767	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	-	3,032
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	-	274
Contributions - Employer	6,051	-
<b>Total</b>	<b>\$ 13,818</b>	<b>\$ 5,262</b>

<b>Public Health District - 2017</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ -	\$ 145
Changes of Assumptions	575	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	-	224
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	-	131
Contributions - Employer	82	-
<b>Total</b>	<b>\$ 657</b>	<b>\$ 500</b>

\$6,418 for the County and \$95 for the Health District was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

	<b>Primary Government</b>	<b>Public Health District</b>
2018	\$ 583	\$ 96
2019	583	96
2020	583	96
2021	1,345	157
2022	1,205	146
2023	673	117
Thereafter	99	28

**Actuarial assumptions**

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

Inflation	2.50%
Salary Increases	Not applicable
Investment Rate of Return	7.50%, net of investment expenses
Cost-of-Living Adjustments	None

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

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2018 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

**Discount rate**

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the County's and Health District's proportionate share of the net OPEB liability to changes in the discount rate**

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

<b>Proportionate Share of the OPEB Liability</b>	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Primary Government	\$ 101,480	\$ 80,206	\$ 61,969
Public Health District	8,134	6,429	4,967

**NOTE 9: TRANSFERS**

Transfers are used to move unrestricted general revenue to finance programs that the County accounts for in other funds in accordance with budget authority and to subsidize other programs. Transfers were also made to close out funds and to finance various road projects.

**NOTE 10: RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The County pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. For the County the coverage by NDRIF is limited to losses of one million dollars per occurrence for general liability, one million for automobile, and \$2,602,050 for public assets/mobile equipment and portable property.

**TOWNER COUNTY**

Notes to the Financial Statements – Continued

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The County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The County 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

**NOTE 11: CONDUIT DEBT OBLIGATIONS**

From time to time, Towner County has obtained community development block grant loans to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans, ownership of the acquired facility transfers to the private-sector entity served by the loan. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

As of December 31, 2018, and 2017, there was one community development block grant loan outstanding, with an aggregate principal amount payable of \$142,784.

# TOWNER COUNTY

## Budgetary Comparison Schedule – General Fund For the Year Ended December 31, 2018 and 2017

	2018				2017			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>								
Taxes	\$ 1,169,872	\$ 1,169,872	\$ 1,127,764	\$ (42,108)	\$ 1,034,797	\$ 1,034,797	\$ 1,026,516	\$ (8,281)
Intergovernmental	313,364	313,364	344,438	31,074	343,891	343,891	242,809	(101,082)
Licenses, Permits and Fees	1,800	1,800	1,400	(400)	1,300	1,300	1,915	615
Charges for Services	244,022	244,022	244,410	388	222,861	222,861	217,474	(5,387)
Fines and Forfeitures	1,500	1,500	2,269	769	1,500	1,500	513	(987)
Interest Income	8,000	8,000	25,293	17,293	6,500	6,500	8,350	1,850
Miscellaneous	15,000	15,000	16,722	1,722	20,000	20,000	10,688	(9,312)
<b>Total Revenues</b>	<b>\$ 1,753,558</b>	<b>\$ 1,753,558</b>	<b>\$ 1,762,296</b>	<b>\$ 8,738</b>	<b>\$ 1,630,849</b>	<b>\$ 1,630,849</b>	<b>\$ 1,508,265</b>	<b>\$ (122,584)</b>
<b>EXPENDITURES</b>								
Current								
General Government	\$ 1,224,274	\$ 1,224,274	\$ 1,329,270	\$ (104,996)	\$ 1,150,391	\$ 1,150,391	\$ 1,138,148	\$ 12,243
Public Safety	534,856	703,365	669,150	34,215	478,242	478,242	504,200	(25,958)
Health and Welfare	4,000	4,000	1,264	2,736	9,600	9,600	4,652	4,948
Culture and Recreation	14,400	14,400	10,730	3,670	14,400	14,400	11,716	2,684
Economic Development	9,600	9,600	8,769	831	8,000	8,000	8,000	-
<b>Total Expenditures</b>	<b>\$ 1,787,130</b>	<b>\$ 1,955,639</b>	<b>\$ 2,019,183</b>	<b>\$ (63,544)</b>	<b>\$ 1,660,633</b>	<b>\$ 1,660,633</b>	<b>\$ 1,666,716</b>	<b>\$ (6,083)</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (33,572)	\$ (202,081)	\$ (256,887)	\$ (54,806)	\$ (29,784)	\$ (29,784)	\$ (158,451)	\$ (128,667)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers In	\$ 25,072	\$ 25,072	\$ 29,615	\$ 4,543	\$ 30,046	\$ 30,046	\$ 110,218	\$ 80,172
Transfers Out	-	-	(1,712)	(1,712)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 25,072</b>	<b>\$ 25,072</b>	<b>\$ 27,903</b>	<b>\$ 2,831</b>	<b>\$ 30,046</b>	<b>\$ 30,046</b>	<b>\$ 110,218</b>	<b>\$ 80,172</b>
<b>Net Change in Fund Balances</b>	<b>\$ (8,500)</b>	<b>\$ (177,009)</b>	<b>\$ (228,984)</b>	<b>\$ (51,975)</b>	<b>\$ 262</b>	<b>\$ 262</b>	<b>\$ (48,233)</b>	<b>\$ (48,495)</b>
Fund Balances - January 1	\$ 1,402,781	\$ 1,402,781	\$ 1,402,781	\$ -	\$ 1,451,014	\$ 1,451,014	\$ 1,451,014	\$ -
Fund Balances - December 31	\$ 1,394,281	\$ 1,225,772	\$ 1,173,797	\$ (51,975)	\$ 1,451,276	\$ 1,451,276	\$ 1,402,781	\$ (48,495)

The notes to the required supplementary information are an integral part of this statement.

# TOWNER COUNTY

## Budgetary Comparison Schedule – Special Revenue Fund For the Year Ended December 31, 2018 and 2017

	2018				2017			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>								
Taxes	\$ 822,814	\$ 822,814	\$ 796,410	\$ (26,404)	\$ 1,023,246	\$ 1,023,246	\$ 1,002,530	\$ (20,716)
Intergovernmental	360,722	360,722	851,581	490,859	681,218	681,218	494,125	(187,093)
Interest	600	600	1,105	505	500	500	794	294
Charge for Service	305,000	305,000	370,155	65,155	265,000	265,000	380,140	115,140
Miscellaneous	43,000	43,000	60,374	17,374	41,300	41,300	44,598	3,298
<b>Total Revenues</b>	<b>\$ 1,532,136</b>	<b>\$ 1,532,136</b>	<b>\$ 2,079,625</b>	<b>\$ 547,489</b>	<b>\$ 2,011,264</b>	<b>\$ 2,011,264</b>	<b>\$ 1,922,187</b>	<b>\$ (89,077)</b>
<b>EXPENDITURES</b>								
<b>Current</b>								
General Government	\$ 99,033	\$ 102,024	\$ 102,001	\$ 23	\$ 152,116	\$ 152,116	\$ 151,943	\$ 173
Public Safety	-	42,602	42,602	-	-	75,999	75,999	-
Highways and Bridges	1,205,149	1,335,335	913,372	421,963	1,501,103	1,763,078	1,417,992	345,086
Flood Repair	-	320,354	422,636	(102,282)	-	-	-	-
Health and Welfare	-	5,739	5,128	611	252,793	252,793	219,237	33,556
Conserv. of Natural Resources	76,500	76,500	70,340	6,160	68,500	68,500	62,621	5,879
<b>Debt Service</b>								
Principle	-	-	403,423	(403,423)	-	-	224,112	(224,112)
Interest	-	-	21,338	(21,338)	-	-	11,212	(11,212)
<b>Total Expenditures</b>	<b>\$ 1,380,682</b>	<b>\$ 1,882,554</b>	<b>\$ 1,980,840</b>	<b>\$ (98,286)</b>	<b>\$ 1,974,512</b>	<b>\$ 2,312,486</b>	<b>\$ 2,163,116</b>	<b>\$ 149,370</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 151,454	\$ (350,418)	\$ 98,785	\$ 449,203	\$ 36,752	\$ (301,222)	\$ (240,929)	\$ (238,447)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers In	\$ 160,000	\$ 160,000	\$ 151,712	\$ (8,288)	\$ 150,000	\$ 150,000	\$ 229,625	\$ 79,625
Sale of Assets	-	-	92,000	92,000	-	-	160,915	160,915
Transfers Out	(185,072)	(187,441)	(179,615)	7,826	(150,000)	(229,531)	(339,843)	(110,312)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (25,072)</b>	<b>\$ (27,441)</b>	<b>\$ 64,097</b>	<b>\$ 91,538</b>	<b>\$ -</b>	<b>\$ (79,531)</b>	<b>\$ 50,697</b>	<b>\$ 130,228</b>
<b>Net Change in Fund Balances</b>	<b>\$ 126,382</b>	<b>\$ (377,859)</b>	<b>\$ 162,882</b>	<b>\$ 540,741</b>	<b>\$ 36,752</b>	<b>\$ (380,754)</b>	<b>\$ (190,232)</b>	<b>\$ (108,219)</b>
Fund Balances - January 1	\$ 2,027,910	\$ 2,027,910	\$ 2,027,910	\$ -	\$ 2,218,142	\$ 2,218,142	\$ 2,218,142	\$ -
Fund Balances - December 31	\$ 2,154,292	\$ 1,650,051	\$ 2,190,792	\$ 540,741	\$ 2,254,894	\$ 1,837,388	\$ 2,027,910	\$ (108,219)

The notes to the required supplementary information are an integral part of this statement.

**TOWNER COUNTY**

Schedule of Employer's Share of Net Pension Liability and Employer Contributions  
 For the Year Ended December 31, 2018

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>Primary Government</b>					
2018	0.108472%	\$ 1,830,583	\$ 1,114,350	164.27%	62.80%
2017	0.107431%	1,726,769	1,096,705	157.45%	61.98%
2016	0.102013%	994,216	1,028,054	96.71%	70.46%
2015	0.097330%	661,827	867,092	76.33%	77.70%
2014	0.095191%	698,810	801,874	87.15%	77.15%
<b>Health District</b>					
2018	0.008695%	\$ 146,738	\$ 89,325	164.27%	62.80%
2017	0.007951%	127,799	81,170	157.45%	61.98%
2016	0.005754%	56,078	57,989	96.70%	70.46%
2015	0.006288%	42,757	56,015	76.33%	77.70%
2014	0.006311%	46,330	53,165	87.14%	77.15%

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>Primary Government</b>					
2018	\$ 82,077	\$ 77,273	\$ 4,804	\$ 1,114,350	6.93%
2017	79,524	77,638	1,886	1,096,705	7.08%
2016	74,429	(70,862)	3,567	1,028,054	7.24%
2015	65,863	(64,886)	977	867,092	7.60%
2014	57,093	(57,093)	-	801,874	7.12%
<b>Health District</b>					
2018	\$ 6,579	\$ 6,270	\$ 309	\$ 89,325	7.02%
2017	5,886	4,948	938	81,170	-6.10%
2016	4,198	(4,130)	68	57,989	7.24%
2015	4,255	(3,988)	267	56,015	7.60%
2014	3,785	(3,785)	-	53,165	0.47%

The accompanying required supplementary information notes are an integral part of this schedule.

**TOWNER COUNTY**

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions  
 For the Year Ended December 31, 2018

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

	<b>Proportion of the Net OPEB Liability (Asset)</b>	<b>Proportionate Share of the Net OPEB (Asset)</b>	<b>Covered-Employee Payroll</b>	<b>Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>
<b>Primary Government</b>					
2018	0.101840%	\$ 80,206	\$ 1,114,350	7.20%	62.80%
2017	0.101374%	80,188	1,096,705	7.31%	59.78%
<b>Health District</b>					
2018	0.008163%	6,429	89,325	7.20%	59.78%
2017	0.007503%	5,935	81,170	7.31%	59.78%

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

	<b>Statutory Required Contribution</b>	<b>Contributions in Relation to the Statutory Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered-Employee Payroll</b>	<b>Contributions as a Percentage of Covered-Employee Payroll</b>
<b>Primary Government</b>					
2018	\$ 13,071	\$ 12,372	\$ 699	\$ 1,114,350	1.11%
2017	12,748	12,431	317	1,096,705	1.13%
<b>Health District</b>					
2018	\$ 1,048	\$ 1,004	\$ 44	\$ 89,325	1.12%
2017	944	792	152	81,170	0.98%

The accompanying required supplementary information notes are an integral part of this schedule.



**TOWNER COUNTY**

Notes to the Required Supplementary Information  
 For the Year Ended December 31, 2018

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

- The County commission adopts an “appropriated budget” on the modified accrual basis of accounting.
- The County auditor prepares an annual budget for the general fund and each special revenue fund of the County. NDCC 11-23-02. The budget includes proposed expenditures and means of financing them.
- The County commission holds a public hearing where any taxpayer may appear and shall be heard in favor of or against any proposed disbursements or tax levies. When the hearing shall have been concluded, the board shall adopt such estimate as finally is determined upon. All taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04
- The board of County commissioners, on or before the October meeting shall determine the amount of taxes that shall be levied for County purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the County auditor at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

**NOTE 2: BUDGET TO ACTUAL RECONCILIATION**

The County entered into various lease agreements in 2017 and 2018. The lease proceeds and corresponding expenditures were reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the special revenue fund. The County didn’t budget for these funds and these transactions were not recorded on the County’s general ledger. The differences are as follows:

<b>2018 Special Revenue Fund</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
Expenditures	\$ 2,302,473	\$ (321,633)	\$ 1,980,840
Lease Proceeds	321,633	(321,633)	-

<b>2017 Special Revenue Fund</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
Expenditures	\$ 2,699,438	\$ (536,322)	\$ 2,163,116
Lease Proceeds	536,322	(536,322)	-

**TOWNER COUNTY**

Notes to the Required Supplementary Information - Continued

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**NOTE 3: LEGAL COMPLIANCE - BUDGETS**

**Budget Amendments**

The board of County commissioners amended the 2018 and 2017 County expenditures and transfers budget for various funds as follows:

2018	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
<b>Fund</b>			
General Fund	\$ 1,787,130	\$ 168,509	\$ 1,955,639
Special Revenue Fund	1,565,754	504,241	2,069,995

2017	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
<b>Fund</b>			
Special Revenue Fund	\$ 2,124,512	\$ 417,505	\$ 2,542,017

**NOTE 4: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS**

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

**NOTE 5: PENSION AND OPEB - CHANGES OF ASSUMPTIONS**

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

STATE AUDITOR

JOSHUA C. GALLION  
Phone (701) 328-2241



Local Government Division  
FARGO OFFICE  
MANAGER – HEATH ERICKSON  
Phone (701)239-7250

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
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FARGO, NORTH DAKOTA 58103

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**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***

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Independent Auditor's Report

Board of County Commissioners  
Towner County  
Cando, 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, each major fund, the discretely presented component units, and the aggregate remaining fund information of Towner County as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Towner County's basic financial statements, and have issued our report thereon dated February 21, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Towner County'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 Towner County's internal control. Accordingly, we do not express an opinion on the effectiveness of Towner County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 audit findings* as items 2018-001, 2018-002, and 2018-003 to be a material weakness.

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. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2018-004, 2018-005 to be significant deficiencies.

**TOWNER COUNTY**

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* - Continued

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**Compliance and Other Matters**

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

**Towner County's Response to Findings**

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

**Purpose of this Report**

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

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
February 21, 2020

**TOWNER COUNTY**

Summary of Auditor's Results  
For the Year Ended December 31, 2018

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**Financial Statements**

Type of Report Issued?

Governmental Activities	Unmodified
Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Internal control over financial reporting**

Material weaknesses identified?   X   Yes        None Noted

Significant deficiencies identified not considered to be material weaknesses?   X   Yes        None Noted

Noncompliance material to financial statements noted?        Yes   X   None Noted

## **TOWNER COUNTY**

Schedule of Audit Findings

For the Year Ended December 31, 2018

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### **2018-001 – FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS**

#### **Condition**

Towner County does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

#### **Criteria**

Management of Towner County is responsible for establishing proper internal control over the preparation of Towner County's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

#### **Cause**

Management may not be fully aware how to prepare basic financial statements that comply with GAAP and has chosen to have the auditors assist in the preparation of the financial statements and note disclosures.

#### **Effect**

There is an increased risk of material misstatement to the Towner County's financial statements.

#### **Repeat Finding**

No.

#### **Recommendation**

We recommend Towner County design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

#### **Towner County's Response**

Agree. Towner County is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

**2018-002 – ADJUSTING JOURNAL ENTRIES – MATERIAL WEAKNESS**

**Condition**

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

**Criteria**

Towner County is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

**Cause**

Management may not be fully knowledgeable of identifying necessary adjustments to present the financial statements in compliance with GAAP.

**Effect**

Inadequate internal controls over recording of transactions affects Towner County's ability to detect misstatements in amounts that could be material in relation to the financial statements.

**Repeat Finding**

No.

**Recommendation**

We recommend Towner County design and implement internal controls to identify the necessary adjustments to present the financial statements in compliance with GAAP.

**Towner County's Response**

Agree. Towner County does not have adequate resources to obtain proper internal controls and training to make and identify all necessary adjustments. We will continue to try to identify all items in need of adjustment at year end to comply with GAAP.

**2018-003 – LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS**

**Condition**

Towner County has minimal employees in the auditor/treasurer offices responsible for all duties performed for the combined office. It appears that the County does not have segregation of duties for keeping the assets and liabilities separate from the posting to the General Ledger. The County does not have an approval procedure in place for manual adjusting entries.

**Criteria**

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the County.

**Cause**

Management has chosen to allocate its economic resources to other functions of the County.

**Effect**

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the County's financial condition, whether due to error or fraud.

**Repeat Finding**

Yes.

**Recommendation**

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

**Towner County's Response**

Agree. Towner County agrees and will segregate duties as it becomes feasible.



**2018-004 - FRAUD RISK ASSESSMENT – SIGNIFICANT DEFICIENCY**

**Condition**

Towner County does not currently prepare a fraud risk assessment of the entire entity.

**Criteria**

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

**Cause**

The County may not have considered preparing a fraud risk assessment.

**Effect**

If the County does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

**Repeat Finding**

No.

**Recommendation**

We recommend the Towner County prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

**Towner County's Response**

Agree. We will perform a fraud risk assessment.

**2018-005 – WATER RESOURCE DISTRICT – UNDERPLEGGED SECURITIES – SIGNIFICANT DEFICIENCY**

**Condition**

Towner County Water Resource District did not have any pledging documentation for either 2017 or 2018 from First State Bank of Cando; thus, they were under pledged at year-end 2017 by \$2,350 and 2018 by \$3,217

**Criteria**

N.D.C.C. 21-04-09 states in part "when securities are so pledged to the board of any public corporation, the board shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits." Pledges are to be maintained in the amount of 110% above FDIC coverage.

**Cause**

The Water Resource District did not have adequate pledging at First State Bank of Cando for either 2017 or 2018. It appears they may have over-looked the fact that pledging was required due to bank balances being above \$250,000.

**Effect**

The Water Resource District may not be in compliance with N.D.C.C. 21-04-09 and could have an increased risk of potential loss of funds to the entity by being under pledged.

**Repeat Finding**

Yes.

**Recommendation**

We recommend that the Towner County WRD ensure that it maintains adequate pledges of securities at any bank where the bank balances could exceed FDIC Insurance.

**Towner County's Response**

Agree. Towner County WRD will ensure that it maintains adequate pledging.



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
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1655 43<sup>RD</sup> STREET SOUTH, SUITE 203.  
FARGO, NORTH DAKOTA 58103

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## GOVERNANCE COMMUNICATION

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Board of County Commissioners  
Towner County  
Cando, North Dakota

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Towner County, North Dakota, for the years ended December 31, 2018 and 2017 which collectively comprise Towner County's basic financial statements, and have issued our report thereon dated February 21, 2020. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance**

As stated in our engagement letter dated November 7, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Towner County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Towner County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

### **Significant Accounting Policies/Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Towner County are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended December 31, 2018 or 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

2018 Adjustments	Client Provided Adjustments		Audit Adjustments		Total Adjustment	
	Debit	Credit	Debit	Credit	Debit	Credit
<b>Primary Government</b>						
Intergovernmental Receivable	-	-	120,042	-	120,042	-
Accounts Receivable	83,327	-	-	45,935	83,327	45,935
Road Receivables	66,124	-	45,935	-	112,059	-
Revenue	-	149,451	-	120,042	-	269,493
Revenue	-	-	858,521	-	858,521	-
Taxes Received in Advance	-	-	-	670,847	-	670,847
Grants Received in Advance	-	-	-	187,674	-	187,674
Cash	-	-	16,775	-	16,775	-
Revenue - Interest	-	-	-	16,775	-	16,775
Expenditures	363,408	-	-	-	363,408	-
Salaries Payable	-	45,933	-	-	-	45,933
Accounts Payable	-	308,708	-	-	-	308,708
Retainage Payable	-	8,767	-	-	-	8,767
<b>Health District</b>						
Intergovernmental Receivable	-	-	55,064	-	55,064	-
Accounts Receivable	763	-	-	-	763	-
Revenue	-	763	-	55,064	-	55,827
<b>Water Resource District</b>						
Expenditures	-	-	-	-	13,680	-
Accounts Payable	-	-	-	13,680	-	13,680
<b>2017 Adjustments</b>						
2017 Adjustments	Client Provided Adjustments		Audit Adjustments		Total Adjustment	
	Debit	Credit	Debit	Credit	Debit	Credit
<b>Primary Government</b>						
Intergovernmental Receivable	153,187	-	139,387	-	292,574	-
Accounts Receivable	7,021	-	-	-	7,021	-
Road Receivables	103,660	-	-	-	103,660	-
Revenue	-	263,868	-	139,387	-	403,255
Revenue	-	-	1,226,562	-	1,226,562	-
Taxes Received in Advance	-	-	-	657,762	-	657,762
Grants Received in Advance	-	-	-	568,800	-	568,800
Expenditures	95,783	-	-	-	69,533	-
Salaries Payable	-	41,927	-	-	27,606	41,927
Accounts Payable	-	53,856	26,250	-	-	27,606
Lease Financing	-	-	-	-	109,469	-
Net Position	-	-	109,469	-	109,469	-
Capital Assets	-	-	-	109,469	-	109,469
<b>Health District</b>						
Intergovernmental Receivable	-	-	6,555	-	6,555	-
Accounts Receivable	1,041	-	-	-	1,041	-
Revenue	-	1,041	-	6,555	-	7,596

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 21, 2020.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of County Commissioners and management of Towner County, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Towner County for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Towner County.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
February 21, 2020



Office of the  
State Auditor

NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

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