



Financial Statements
December 31, 2017
Burke County

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Chairman
Commissioner
Commissioner

Auditor
Treasurer
Recorder/Clerk of Court
Sheriff
State's Attorney



Independent Auditor's Report

Board of County Commissioners
Burke County
Bowbells, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Burke County, Bowbells, ND, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 modified cash basis financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Burke County, Bowbells, ND, as of December 31, 2017, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Burke County, Bowbells, ND's financial statements. The county officials, budgetary comparison schedules and schedule of employer's share of net pension liability and employer contributions are presented for purposes of additional analysis and are not a required part of the financial statements.

The budgetary comparison schedules and the schedule of employer's share of net pension liability and employer contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and schedule of employer's share of net pension liability and employer contributions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019 on our consideration of Burke County, Bowbells, ND'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 Burke County, Bowbells, ND's internal control over financial reporting and compliance.



Bismarck, North Dakota
January 17, 2019

Burke County
Statement of Net Position – Modified Cash Basis
December 31, 2017

	Primary Government	Component Unit
	Governmental Activities	Water Resource District
Assets		
Cash and investments	\$ 13,077,882	\$ 20,343
Capital assets, not being depreciated		
Land	4,043	-
Construction in progress	33,686	-
Capital assets (net of accumulated depreciation)		
Buildings	322,303	-
Office equipment	30,291	-
Vehicles and road equipment	1,160,837	-
Infrastructure	22,603,625	-
Total capital assets	<u>24,154,785</u>	<u>-</u>
Total assets	<u>\$ 37,232,667</u>	<u>\$ 20,343</u>
Liabilities		
Long-term liabilities		
Due after one year		
Loan payable	\$ 260,907	\$ -
Total liabilities	<u>260,907</u>	<u>-</u>
Net Position		
Net investment in capital assets	23,893,878	-
Restricted for		
Health and welfare	100,866	-
Unrestricted	<u>12,977,016</u>	<u>20,343</u>
Total net position	<u>36,971,760</u>	<u>20,343</u>
Total liabilities and net position	<u>\$ 37,232,667</u>	<u>\$ 20,343</u>

Burke County
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	Component Unit Water Resource District
Primary government					
Governmental activities					
General government	\$ 2,086,301	\$ 456,823	\$ 872	\$ (1,628,606)	\$ -
Public safety	579,313	5,223	69,672	(504,418)	-
Highways	2,161,005	397,511	343,617	(1,419,877)	-
Health and welfare	311,417	145	53,229	(258,043)	-
Conservation of natural resources	156,048	-	-	(156,048)	-
Economic development	44,662	-	-	(44,662)	-
Other	96,827	-	-	(96,827)	-
Total primary government	<u>\$ 5,435,573</u>	<u>\$ 859,702</u>	<u>\$ 467,390</u>	<u>(4,108,481)</u>	<u>-</u>
Component unit					
Water Resource District	\$ 16,257	\$ -	\$ -	-	(16,257)
Total component units	<u>\$ 16,257</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(16,257)</u>
General revenues					
Taxes					
Property taxes, levied for general purposes				1,189,520	20,391
Property taxes, levied for special purposes				727,288	-
Nonrestricted grants and contributions				3,870,022	-
Earnings on investments				63,563	40
Miscellaneous revenue				158,217	-
Total general revenues				<u>6,008,610</u>	<u>20,431</u>
Loss on disposal of fixed assets				<u>(38,912)</u>	<u>-</u>
Change in net position				<u>1,861,217</u>	<u>4,174</u>
Net position - January 1				<u>35,110,543</u>	<u>16,169</u>
Net position - December 31				<u>\$ 36,971,760</u>	<u>\$ 20,343</u>

Burke County
Balance Sheet – Governmental Funds – Modified Cash Basis
December 31, 2017

	<u>General</u>	<u>County Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and Investments	<u>\$ 10,564,288</u>	<u>\$ 973,985</u>	<u>\$ 1,539,609</u>	<u>\$ 13,077,882</u>
Fund Balances				
Restricted for				
Health and welfare	\$ 100,866	\$ -	\$ -	\$ 100,866
Assigned for				
General government	-	-	409,088	409,088
Public safety	50,901	-	-	50,901
Highways	-	973,985	528,491	1,502,476
Health and welfare	-	-	254,651	254,651
Conservation of natural resources	109,212	-	347,379	456,591
Unassigned	<u>10,303,309</u>	<u>-</u>	<u>-</u>	<u>10,303,309</u>
Total fund balances	<u>\$ 10,564,288</u>	<u>\$ 973,985</u>	<u>\$ 1,539,609</u>	<u>\$ 13,077,882</u>

Burke County

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

Total fund balances for governmental funds		\$ 13,077,882
Total net position reported for government activities in the statement of net position is different because		
<p style="margin-left: 40px;">Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of capital assets	\$ 32,599,612	
Less accumulated depreciation	<u>(8,444,827)</u>	
Net capital assets		<u>24,154,785</u>
<p style="margin-left: 40px;">Long-term liabilities applicable to the County's governmental activities 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. Balances at December 31, 2017 are:</p>		
Loan payable		<u>(260,907)</u>
Total net position of governmental activities		<u><u>\$ 36,971,760</u></u>

Burke County
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash
Basis
Year Ended December 31, 2017

	<u>General</u>	<u>County Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 1,300,518	\$ 292,281	\$ 324,009	\$ 1,916,808
Licenses, permits and fees	378,935	-	145	379,080
Intergovernmental	3,652,972	157,152	527,288	4,337,412
Charges for services	77,888	397,511	-	475,399
Fines and forfeits	5,223	-	-	5,223
Interest income	63,563	-	-	63,563
Miscellaneous	151,157	7,060	-	158,217
Total revenues	<u>5,630,256</u>	<u>854,004</u>	<u>851,442</u>	<u>7,335,702</u>
Expenditures				
Current				
General government	1,672,021	-	398,140	2,070,161
Public safety	502,785	-	-	502,785
Highways	-	114,950	483,380	598,330
Health and welfare	-	-	311,417	311,417
Culture and recreation	-	-	-	-
Conservation of natural resources	87,373	-	68,675	156,048
Economic development	44,662	-	-	44,662
Other	15,608	-	81,219	96,827
Capital outlay	159,530	1,816,563	36,685	2,012,778
Total expenditures	<u>2,481,979</u>	<u>1,931,513</u>	<u>1,379,516</u>	<u>5,793,008</u>
Excess (Deficiency) of Revenues over Expenditures	<u>3,148,277</u>	<u>(1,077,509)</u>	<u>(528,074)</u>	<u>1,542,694</u>
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	2,000	2,000
Loan proceeds	260,907	-	-	260,907
Transfers in	-	1,022,177	645,782	1,667,959
Transfers out	(1,411,715)	(166,763)	(89,481)	(1,667,959)
Total other financing sources and uses	<u>(1,150,808)</u>	<u>855,414</u>	<u>558,301</u>	<u>262,907</u>
Net Change in Fund Balances	<u>1,997,469</u>	<u>(222,095)</u>	<u>30,227</u>	<u>1,805,601</u>
Fund Balance - January 1	<u>8,566,819</u>	<u>1,196,080</u>	<u>1,509,382</u>	<u>11,272,281</u>
Fund Balance - December 31	<u>\$ 10,564,288</u>	<u>\$ 973,985</u>	<u>\$ 1,539,609</u>	<u>\$ 13,077,882</u>

Burke County

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

Net change in fund balance - total governmental funds		\$ 1,805,601
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. This is the effect of capital outlay, depreciation expense and other capital asset transactions in the current period:		
Current year capital outlay	\$ 2,012,778	
Current year depreciation expense	(1,655,343)	
Proceeds from sale of assets	(2,000)	
Loss on disposal of capital assets	(38,912)	
	316,523	316,523
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the statement of net position		
		(260,907)
The County recorded expenditures for a portion of a road that was financed by the North Dakota Department of Transportation		
Change in net position of governmental activities		\$ 1,861,217

Burke County
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds – Modified Cash Basis
December 31, 2017

Assets

Cash and investments

\$ 1,136,548

Liabilities

Due to other governments

\$ 1,136,548

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

In conformity with a modified cash basis, the financial statements of the component unit has been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit – The component unit column in the combined financial statements includes the financial data of the County's component unit. This component unit is reported in a separate column to emphasize that it is legally separate from the County.

Burke County Water Resource District – The members of the governing board are appointed by the Board of County Commissioners and can be removed from office for just cause. The County Commission can approve, disapprove or amend the District's annual budget. The District has the authority to issue debt.

Component Unit Financial Statements- The financial statements of the discretely presented component unit are presented in the County's basic financial statements. Complete financial statements of the individual component unit can be obtained from the Burke County Auditor at P.O. Box 310, Bowbells, ND 58721.

Government-Wide and Fund Financial Statements

Government-Wide Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and non-exchange transactions. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental funds are reported using the current financial resources measurement focus and the cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

The County’s basis of accounting differs from accounting principles generally accepted in the United States of America because certain items such as accounts receivable, accounts payable, and accrued expenses are not included in the financial statements under the cash basis of accounting. Only capital assets and long-term debt are recorded under the basis of accounting described above and are included on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

If the County applied US GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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.

County Road and Bridge Fund – This fund accounts for the maintenance and repair of roads within the County.

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.

The County follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for all governmental entities. For the government-wide financial statements, the District follows all applicable GASB pronouncements to the extent they are applicable to the modified cash basis of accounting.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. 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.

Equity Classifications

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance Classification Policies and Procedures

The County classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by management.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The County uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

The investments consist of certificates of deposit, with maturity dates in excess of 90 days, stated at fair value.

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.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

General infrastructure assets consist of the road and bridge projects constructed since January 1, 2004 and are reported at historical cost. 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.

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

Assets	Years
Buildings	50
Office equipment	5
Vehicles and road equipment	6-20
Infrastructure	30-50

Pension

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS’s 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. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 10, is shown as additional information to the users of the financial statements.

Note 2 - Legal Compliance - Budgets

The County commission adopts an “appropriated budget” on the modified cash 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 current budget, except for property taxes, may be amended throughout the year for revenues or appropriations anticipated when the budget was prepared. NDCC 57-15-31.1. Each budget is controlled by the County auditor at the revenue and expenditure function/object level. All appropriations lapse at year-end. When expenditures are in excess of appropriations the County will fund these items through revenues in excess of budget, cash reserves of the fund, or from a cash transfer from other funds.

The County holds public hearings regarding disbursements. All tax levies and all taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04. The County commissioners meet on or before October to 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.

Note 3 - Deposits

In accordance with North Dakota Statutes, the County maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions 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 December 31, 2017, the County's bank balances were covered by FDIC, or collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2017, Burke County Water Resource District, a discretely presented component unit of Burke County, had deposits with a bank balance and carrying balance of \$20,343. The bank balances were covered by Federal Depository Insurance.

Interest Rate Risk – The County does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates. The following shows the investments by type, amount and duration at December 31, 2017:

	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5-10 Years</u>	<u>More Than 10 Years</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 5,403,675</u>	<u>\$ 2,076,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,480,615</u>

Investments of the Burke County Water Resource Board, a discretely presented component unit of Burke County, consisted of certificates of deposit totaling \$10,000 that mature in less than one year.

Credit Risk

The County may invest idle funds as authorized in North Dakota Statutes, 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.

Concentration of Credit Risk

The County does not have a limit on the amount the district may invest in any one issuer.

Note 4 - Property Tax Revenue

The County treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Any material collections are distributed after the end of the month.

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.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

Note 5 - Capital Assets

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

<u>Governmental Activities</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Land	\$ 4,043	\$ -	\$ -	\$ 4,043
Construction in progress	8,605,264	1,538,675	10,110,253	33,686
Total capital assets not being depreciated	<u>8,609,307</u>	<u>1,538,675</u>	<u>10,110,253</u>	<u>37,729</u>
Capital assets being depreciated				
Buildings	793,045	-	-	793,045
Furniture and equipment	44,042	32,990	-	77,032
Vehicles and equipment	2,275,774	441,113	241,053	2,475,834
Infrastructure	19,105,718	10,110,254	-	29,215,972
Total capital assets, being depreciated	<u>22,218,579</u>	<u>10,584,357</u>	<u>241,053</u>	<u>32,561,883</u>
Less accumulated depreciation for				
Buildings	457,301	13,441	-	470,742
Furniture and equipment	44,042	2,699	-	46,741
Vehicles and equipment	1,160,663	354,474	200,140	1,314,997
Infrastructure	5,327,618	1,284,729	-	6,612,347
Total accumulated depreciation	<u>6,989,624</u>	<u>1,655,343</u>	<u>200,140</u>	<u>8,444,827</u>
Total capital assets being depreciated, net	<u>15,228,955</u>	<u>8,929,014</u>	<u>40,913</u>	<u>24,117,056</u>
Governmental activities - capital assets, net	<u>\$ 23,838,262</u>	<u>\$ 10,467,689</u>	<u>\$ 10,151,166</u>	<u>\$ 24,154,785</u>

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

<u>Governmental Activities</u>	
General government	\$ 16,140
Public safety	76,528
Highways	<u>1,562,675</u>
Total depreciation expense - governmental activities	<u>\$ 1,655,343</u>

Note 6 - Transfers

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the years ended December 31, 2017:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 1,411,715
County Road and Bridge	1,022,177	166,763
Other Governmental Funds	645,782	89,481
	<u>1,667,959</u>	<u>1,667,959</u>
Total transfers	<u>\$ 1,667,959</u>	<u>\$ 1,667,959</u>

The inter-fund transfers consist of budgeted transfers and transfers of interest income allocated to the funds.

Note 7 - Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in liabilities reported as long-term debt:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Certificate of indebtedness	<u>\$ -</u>	<u>\$ 260,907</u>	<u>\$ -</u>	<u>\$ 260,907</u>	<u>\$ -</u>

Outstanding debt at December 31, 2017 consists of the following:

\$260,907 Certificate of Indebtedness Series 2017 - due in interest only payments through December 28, 2017, variable interest rate (1.75% at December 31, 2017); principal and interest monthly installments of \$2,372 beginning January 28, 2019 through December 28, 2028	<u>\$ 260,907</u>
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Debt service requirements on long-term debt at December 31, 2017 are as follows:

<u>Year Ending December 31</u>	<u>Certificate of Indebtedness</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 4,566
2019	24,086	4,373
2020	24,511	3,948
2021	24,943	3,516
2022	25,383	3,076
Thereafter	161,984	8,771
	<u>\$ 260,907</u>	<u>\$ 28,250</u>

Note 8 - Related Organization

Burke County is also responsible for levying a property tax for the senior citizens and the Historical Society but the County's accountability for these entities does not extend beyond levying the tax. In 2017, the County remitted the following amounts to these entities:

<u>Organization</u>	<u>Balance</u>
Senior citizens	\$ 83,020
Historical Society	8,344

Note 9 - Risk Management

Burke County is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2017, the County managed its risks as follows:

Liability Insurance

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Burke County pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$2,533,767 for inland marine coverage.

Property and Bond Insurance

Burke County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Burke 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 one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides Burke 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.

Burke County has workers compensation with the North Dakota Workforce Safety and Insurance. The County pays for a single policy health insurance from a commercial insurance carrier.

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

Note 10 - Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

Net Pension Liability

At December 31, 2017, the Employer's proportionate share of the net pension liability was \$2,498,881. The net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2017, the Employer's proportion was 0.155468 percent. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3.50%
Salary Increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%
	*Age-based salary increase rates apply for employees with three or more years of service	
Investment Rate of Return, net of investment expenses		7.75%
Cost-of-living adjustments		None

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	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 3.56%; and the resulting Single Discount Rate is 6.44%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease in Discount Rate (5.44%)	Discount Rate (6.44%)	1% Increase in Discount Rate (7.44%)
County's proportionate share of the NDPERS net pension liability	\$ 2,181,997,191	\$ 1,607,328,180	\$ 1,129,227,525

Pension Plan Fiduciary Net Position

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



Supplementary Information
December 31, 2017
Burke County

Burke County
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 8,075	\$ 8,075	\$ 1,200,383	\$ 1,192,308
Licenses, permits and fees	208,200	208,200	378,935	170,735
Intergovernmental	1,788,160	1,788,160	3,566,872	1,778,712
Charges for services	25,000	25,000	66,605	41,605
Fines and forfeits	1,200	1,200	5,223	4,023
Interest income	30,000	30,000	63,563	33,563
Miscellaneous	15,000	15,000	67,833	52,833
Total revenues	<u>2,075,635</u>	<u>2,075,635</u>	<u>5,349,414</u>	<u>3,273,779</u>
Expenditures				
Current				
General government	1,401,681	1,401,681	1,095,362	306,319
Public safety	722,049	722,049	542,790	179,259
Economic development	60,826	60,826	44,662	16,164
Conservation	-	-	5,235	(5,235)
Other	-	-	15,608	(15,608)
Capital outlay	-	-	159,530	(159,530)
Total expenditures	<u>2,184,556</u>	<u>2,184,556</u>	<u>1,863,187</u>	<u>321,369</u>
Excess of Revenues over Expenditures	<u>(108,921)</u>	<u>(108,921)</u>	<u>3,486,227</u>	<u>3,595,148</u>
Other Financing Uses				
Loan proceeds	-	-	260,907	260,907
Transfers out	(2,770,000)	(2,770,000)	(1,781,789)	988,211
Total other financing uses	<u>(2,770,000)</u>	<u>(2,770,000)</u>	<u>(1,520,882)</u>	<u>1,249,118</u>
Net Change in Fund Balances	(2,878,921)	(2,878,921)	1,965,345	4,844,266
Fund Balance - January 1	<u>8,337,964</u>	<u>8,337,964</u>	<u>8,337,964</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 5,459,043</u>	<u>\$ 5,459,043</u>	<u>\$ 10,303,309</u>	<u>\$ 4,844,266</u>
Differences between budgetary and modified cash basis fund balance:				
General Fund				\$ 10,303,309
Insurance Reserve Fund				47,563
Compensation Health Care Insurance				53,303
County Agent Fund				109,212
911 System Fund				8,696
Homeland Security Fund				8,376
Extension Office Fund				33,829
GAAP fund balance (combined with General Fund for modified cash basis presentation)				<u>\$ 10,564,288</u>

Burke County
 Budgetary Comparison Schedule – County Road and Bridge Fund
 Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 7,000	\$ 7,000	\$ 292,281	\$ 285,281
Intergovernmental	20,000	20,000	157,152	137,152
Charges for services	190,500	190,500	397,511	207,011
Miscellaneous	1,000	1,000	7,060	6,060
Total revenues	<u>218,500</u>	<u>218,500</u>	<u>854,004</u>	<u>635,504</u>
Expenditures				
Current				
Highways	2,280,000	2,280,000	114,950	2,165,050
Capital outlay	-	-	1,816,563	(1,816,563)
Total expenditures	<u>2,280,000</u>	<u>2,280,000</u>	<u>1,931,513</u>	<u>348,487</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,061,500)</u>	<u>(2,061,500)</u>	<u>(1,077,509)</u>	<u>983,991</u>
Other Financing Sources				
Transfers in	2,000,000	2,000,000	855,414	(1,144,586)
Total other financing sources	<u>2,000,000</u>	<u>2,000,000</u>	<u>855,414</u>	<u>(1,144,586)</u>
Net Change in Fund Balances	(61,500)	(61,500)	(222,095)	(160,595)
Fund Balance - January 1,	<u>1,196,080</u>	<u>1,196,080</u>	<u>1,196,080</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 1,134,580</u>	<u>\$ 1,134,580</u>	<u>\$ 973,985</u>	<u>\$ (160,595)</u>

Burke County
 Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 Year Ended December 31, 2017

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

Pension Plan	Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
NDPERS	6/30/2015	0.154300%	\$ 1,049,214	\$ 1,374,623	76.33%	77.15%
NDPERS	6/30/2016	0.158417%	\$ 1,543,928	\$ 1,596,469	96.71%	70.46%
NDPERS	6/30/2017	0.155468%	\$ 2,498,881	\$ 1,587,088	157.45%	61.98%

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Employer's Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (a/d)
NDPERS	12/31/2015	\$ 130,260	\$ 130,260	\$ -	\$ 1,829,494	7.12%
NDPERS	12/31/2016	\$ 115,582	\$ 115,582	\$ -	\$ 1,623,343	7.12%
NDPERS	12/31/2017	\$ 115,083	\$ 115,083	\$ -	\$ 1,587,352	7.25%

Note 1 - Schedule of Employer Pension Liability and Contributions

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

Note 2 - Changes of Assumptions

Amounts reported reflect actuarial assumption changes effective July 1, 2015 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.



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of County Commissioners
Burke County
Bowbells, 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 modified cash basis financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Burke County as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Burke County’s basic financial statements, and have issued our report thereon dated January 17, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit findings, we identified 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 listed as 2017-B, 2017-C, and 2017-D to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings listed as 2017-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Burke 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 matters that are required to be reported under *Government Auditing Standards*.

Burke County's Responses to Findings

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

Purpose of this Report

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

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

Bismarck, North Dakota
January 17, 2019

Financial Statement Audit Findings

2017-A Segregation of Duties - Significant Deficiency

Condition - The County has a lack of segregation of duties in certain areas due to a limited staff.

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

Cause – The County has limited staff to be able to adequately segregate duties.

Effect - Inadequate segregation of duties could adversely affect the County’s ability to detect misstatements in amounts that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

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

Response – Burke County recognizes this is a serious issue; however, we do not feel it would be a wise use of our resources to employ additional staff for the sole purpose of ensuring segregation of duties. While we realize there is always a possibility, we have so far been able to rely on the integrity of our staff.

2017-B Department Controls over Cash – Material Weakness

Condition: The County has a lack of effective internal controls related to the receipting process in various departments of the County that collect funds and remit them to the Treasurer’s office. Specifically, it was noted that there have been significant increases in the activity and funds handled directly by departments such as the Recorder’s Office and the Sheriff’s Office. These departments have limited staff to handle the transactions and do not maintain detailed records of all transactions to support the activity.

Criteria: A good system of internal accounting control contemplates an adequate paper trail and proper segregation of duties so no one individual handles a transaction from beginning to end to mitigate abuse or fraud.

Cause: The departments have limited staff available to properly segregate the duties related to the cash receipt process. The procedures followed for receipting cash also involve several manual steps which result in an inadequate audit trail.

Effect: Inadequate controls over cash receipts could affect the County’s ability to detect errors or fraud.

Recommendation: We recommend the County eliminate as many manual procedures related to receipting cash as possible and maintain detailed records of all transactions handled in the departments. We also recommend the duties of entering and adjusting charges in the system, taking customer payments, receipting payments, and preparing the deposits be segregated. The County should also determine if there are additional controls that can be implemented to mitigate the risks due to limited staff in the departments.

Response – The Burke County Commissioners will continue to meet with the departments to address controls over cash and to see that this deficiency is corrected.

2017-C Material Audit Adjustments - Material Weakness

Condition – We identified a misstatement in the County’s financial statements causing us to propose a material audit adjustment.

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

Cause – The County has not trained staff in the recording of certain transactions.

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

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

Response – The staff at the County does not have the proper training to make all of the adjustments that are necessary for an audit ready trial balance and it is not cost-effective for an organization of our size to obtain all of the training necessary. We will continue to try to identify all of the items that need to be adjusted at year end and make the necessary adjustments.

2017-D Preparation of Financial Statements – Material Weakness

Condition – Burke County does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to write the financial statements, and the accompanying notes to the financial statements.

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

Cause – The County has no trained staff in GASB reporting standards to prepare the accompanying notes to the financial statements.

Effect – Inadequate control over financial reporting of Burke County could result in more than a remote likelihood that the financial statements and accompanying notes to the financial statements are not materially correct without the assistance of auditors.

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

Response – Since this is not an unusual circumstance, Burke County feels able to accept this degree of risk.



To the Board of County Commissioners
Burke County
Bowbells, North Dakota

We have audited the financial statements of Burke County as of and for the year ended December 31, 2017, and have issued our report thereon dated January 17, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated August 7, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Burke County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated January 17, 2019.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Burke County is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

There are no sensitive estimates affecting Burke County's financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. Burke County's financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The misstatements that we identified as a result of our audit procedures are summarized on the attached schedule and were brought to the attention of, and corrected by, management. There were no uncorrected misstatements that we identified as a result of our audit procedures.

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, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated January 17, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Burke County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Burke County's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Burke County's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have:

We were engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with a modified cash basis of accounting, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The financial statements include the financial information of the Water Resource District, a discretely presented component unit of Burke County, which for the purposes of our audit, we did not consider to be significant components of the financial statements. Consistent with the audit of the financial statements as a whole, our audit included obtaining an understanding of the Water Resource District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial information of the Water Resource District and completion of further audit procedures, as determined to be necessary.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Board of County Commissioners and management of Burke County and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
January 17, 2019

Client: **69278 - Burke County**
 Engagement: **AA2017 - Burke County**
 Period Ending: **12/31/2017**
 Trial Balance: **3.00 - Trial Balance**
 Workpaper: **1a.01b - AU-C 260 Attachment**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
L.01				
To adjust for transfers related to tax collections that were recorded as revenues instead of transfers in.				
2930-3110	PROPERTY TAXES		287,261.00	
2940-3110	PROPERTY TAXES		54,347.00	
2950-3110	PROPERTY TAXES		147,512.00	
2965-3110	PROPERTY TAXES		38,819.00	
EB1000-4190	Non-Departmental		15,527.00	
1000-4998	TAX COLLECTION TRANSFERS			15,527.00
2930-3950	TRANSFER IN FROM GENERAL FUND			287,261.00
2940-3950	Transfers In			54,347.00
2950-3950	TRANSFER IN FROM GENERAL FUND			147,512.00
2965-3950	TRANSFER IN FROM GENERAL FUND			38,819.00
Total			543,466.00	543,466.00
Adjusting Journal Entries JE # 3				
L.01, PP.00				
To move money paid from the Highway Matching Fund to the County Road and Bridge fund from expenditures into transfers.				
2110-4999	Transfers Out		22,177.00	
2110-4190	NON-DEPARTMENTAL			22,177.00
Total			22,177.00	22,177.00
Adjusting Journal Entries JE # 4				
L.01, B.01				
To reclassify employee portion of social security as a transfer.				
1000-4999	TRANSFERS TO OTHER FUNDS		75,950.00	
2150-4999	TRANSFERS TO OTHER FUNDS		40,640.00	
2230-4999	Transfer out to other funds		25,470.00	
2920-4999	Transfer out to other funds		946.00	
2930-3670	EMPLOYEES SHARE OF SOCIAL SECURITY		150,039.00	
2960-4999	Transfer out to other funds		3,109.00	
2970-4999	TRANSFERS TO OTHER FUNDS		248.00	
2980-4999	Transfer out to other funds		240.00	
8140-4999	TRANSFER OUT		3,436.00	
1000-4190	NON-DEPARTMENTAL			75,950.00
2150-4320	HIGHWAY TAX DISTRIBUTION			40,640.00
2230-4420	HUMAN SERVICES			25,470.00
2920-4146	VETERANS SERVICE OFFICER			946.00
2930-3950	TRANSFER IN FROM GENERAL FUND			150,039.00
2960-4811	COUNTY AGENT			3,109.00
2970-4831	WEED CONTROL			248.00
2980-4215	911 SYSTEM			240.00
8140-4190	NON-DEPARTMENTAL			3,436.00
Total			300,078.00	300,078.00
Adjusting Journal Entries JE # 5				
L.01, B.01				
To reclassify money moved from County Road & Bridge to Highway Tax for snow removal from revenue and expense to transfers.				
2120-4999	Transfer to other funds		166,763.00	
2150-3136	SNOW REMOVAL HOURS		166,763.00	
2120-4310	ROAD AND BRIDGE			166,763.00
2150-3950	TRANSFER IN FROM GENERAL FUND			166,763.00
Total			333,526.00	333,526.00
Adjusting Journal Entries JE # 6				
A.01a				
To record taxes held in FY17 due in FY18				
1000-1130	CASH IN BANK		244,449.00	
2120-1130	CASH IN BANK		61,098.00	
2920-1130	CASH IN BANK		3,358.00	
2960-1130	CASH IN BANK		22,157.00	
2970-1130	CASH IN BANK		18,983.00	
2990-1130	CASH IN BANK		12,208.00	
8190-1130	CASH IN BANK		1,526.00	
EB8880-1130	CASH IN BANK		716,898.00	
1000-3110	PROPERTY TAXES			244,449.00
2120-3110	PROPERTY TAXES			61,098.00
2920-3110	PROPERTY TAXES			3,358.00
2960-3110	PROPERTY TAXES			22,157.00
2970-3110	PROPERTY TAXES			18,983.00
2990-3110	PROPERTY TAXES			12,208.00
8190-3110	PROPERTY TAXES			1,526.00
EB8880-2410	DUE TO OTHER GOVERNMENTAL UNITS			716,898.00
Total			1,080,677.00	1,080,677.00

Adjusting Journal Entries JE # 7

LL.01

To record close-out of property tax revenues from PY AJE#6

1000-3110	PROPERTY TAXES	222,424.00	
2110-3110	PROPERTY TAXES	157.00	
2120-3110	PROPERTY TAXES	55,739.00	
2230-3110	PROPERTY TAXES	37,300.00	
2920-3110	PROPERTY TAXES	2,794.00	
2930-3110	PROPERTY TAXES	238.00	
2940-3110	PROPERTY TAXES	49.00	
2950-3110	PROPERTY TAXES	97.00	
2960-3110	PROPERTY TAXES	18,612.00	
2965-3110	PROPERTY TAXES	27.00	
2970-3110	PROPERTY TAXES	18,590.00	
2990-3110	PROPERTY TAXES	10,608.00	
1000-2961	FUND BALANCE		222,424.00
2110-2961	FUND BALANCE		157.00
2120-2961	FUND BALANCE		55,739.00
2230-2961	FUND BALANCE		37,300.00
2920-2961	FUND BALANCE		2,794.00
2930-2961	FUND BALANCE		238.00
2940-2961	FUND BALANCE		49.00
2950-2961	FUND BALANCE		97.00
2960-2961	FUND BALANCE		18,612.00
2965-2961	FUND BALANCE		27.00
2970-2961	FUND BALANCE		18,590.00
2990-2961	FUND BALANCE		10,608.00
Total		<u>366,635.00</u>	<u>366,635.00</u>
Total Adjusting Journal Entries		<u>2,646,559.00</u>	<u>2,646,559.00</u>
Total All Journal Entries		<u>2,646,559.00</u>	<u>2,646,559.00</u>

