Financial Statements
December 31, 2017

McKenzie County

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Independent Auditor's Report

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on the Financial Statements
We have audited the accompanying modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota 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 audits. We conducted our audits 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.

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Basis for Adverse Opinion on Aggregate Discretely Presented Component Units
McKenzie County has not included the financial statements of the McKenzie County Water Resource District, a component unit of McKenzie County, in the County's financial statements. The modified cash basis of accounting requires the McKenzie County Water Resource District to be presented as a discretely presented component unit. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of McKenzie County has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of McKenzie County, as of December 31, 2017, or the changes in financial position thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Unmodified 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, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota, as of December 31, 2017, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting as 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 that matter.

Other Matters

Other Information
Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise McKenzie County's financial statements. The county officials listing, budgetary comparison schedules, Schedule of Employer's Share of Net Pension Liability, Schedule of Employer's Contributions – Pension, Schedule of Employer's Share of Net OPEB Liability, and Schedule of Employer's Contributions – OPEB are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the governmental financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 on our consideration of McKenzie County, North Dakota'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie County's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
March 22, 2019

	Primary Government Governmental Activities	Component Units
Assets		
Cash and investments	$ 91,062,409	$ 371,302
Note receivable	3,774,343	-
Capital assets not being depreciated		
Land	4,811,512	-
Construction in progress	30,647,666	-
Capital assets net of accumulated depreciation		
Buildings	67,250,802	-
Furniture and equipment	2,044,651	-
Infrastructure	177,311,242	-
Vehicles and equipment	12,571,176	-
Total capital assets	294,637,049	-
Total assets	$ 389,473,801	$ 371,302
Liabilities		
Long-term liabilities		
Due within one year		
Loan payable	$ 4,485,474	$ -
Due after one year		
Loan payable	36,203,114	-
Total liabilities	$ 40,688,588	$ -
Net Position		
Net investment in capital assets	$ 253,948,461	$ -
Restricted for		
Public safety	313,678	-
Highways	830,746	-
Culture and recreation	-	281,767
Conservation of natural resources	-	59,018
Economic development	-	30,517
Unrestricted	93,692,328	-
Total Net Position	$ 348,785,213	$ 371,302

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	$ 5,457,008	$ 7,901,209	$ 774,105	$ -	$ 3,218,306	$ -
Public safety	2,728,691	-	239	-	(2,728,452)	-
Highways	12,111,440	593,533	-	5,856,094	(5,661,813)	-
Health and welfare	1,887,050	21,134	366,960	-	(1,498,956)	-
Culture and recreation	626,062	-	50	-	(626,012)	-
Conservation of natural resources	697,890	115,178	70,864	-	(511,848)	-
Economic development	920,209	-	-	-	(920,209)	-
Other	404,065	-	-	-	(404,065)	-
Interest	1,049,604	-	-	-	(1,049,604)	-
Total primary government	$ 25,882,019	$ 8,631,054	$ 1,212,218	$ 5,856,094	(10,182,653)	-
Component units	$ 1,334,141	$ 10,246	$ 1,073,821	$ -	-	(250,074)
General revenues						
Taxes						
Property taxes, levied for special purposes					5,427,409	382,270
Other taxes					1,209,544	-
Oil and gas production					48,764,797	-
State aid not restricted to specific program					665,086	14,970
Royalties					6,546,795	-
Earnings on investments					160,801	139
Miscellaneous revenue					880,962	100
Total general revenues					63,655,394	397,479
Gain on disposal of assets					6,459	-
Change in net position					53,479,200	147,405
Net position - January 1					295,306,013	223,897
Net position - December 31					$ 348,785,213	$ 371,302

McKenzie County

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2017

	Major Funds			
	General	County Road and Bridge	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	$46,658,726	$39,971,458	$ 3,268,180	$89,898,364
Note receivable	3,774,343	-	-	3,774,343
Total assets	$50,433,069	$39,971,458	$ 3,268,180	$93,672,707
Fund Balances				
Nonspendable	$ 3,774,343	$ -	$ -	$ 3,774,343
Restricted				
Public safety	-	-	313,678	313,678
Highways	-	-	830,746	830,746
Assigned				
General government	1,022,164	-	-	1,022,164
Public safety	206,674	-	6,292	212,966
Highways	-	39,971,458	1,684,264	41,655,722
Health and welfare	-	-	332,719	332,719
Culture and recreation	10,550	-	67	10,617
Conservation of Natural resources	-	-	100,414	100,414
Unassigned	45,419,338		-	45,419,338
Total fund balances	$50,433,069	$39,971,458 -	$ 3,268,180	$93,672,707

Total fund balances for governmental funds		$ 93,672,707
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	$ 355,526,821	
Less accumulated depreciation	(60,889,772)	294,637,049
Net capital assets		
Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position is:		1,164,045
Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.		(40,688,588)
Total net position of governmental activities		$ 348,785,213

	Major Funds				
	General	County Road and Bridge	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 1,227,800	$ 2,007,433	$ -	$ 2,175,311	$ 5,410,544
Special assessments	-	16,865	-	-	16,865
Licenses, permits and fees	5,695,560	-	-	-	5,695,560
Intergovernmental	46,326,417	5,041,801	1,049,604	4,739,602	57,157,424
Charges for services	2,205,649	593,533	-	136,312	2,935,494
Royalties	6,546,795	-	-	-	6,546,795
Interest income	109,039	48,964	-	2,798	160,801
Miscellaneous	724,125	130,597	-	26,240	880,962
Total revenues	62,835,385	7,839,193	1,049,604	7,080,263	78,804,445
Expenditures					
Current					
General government	2,444,863	-	-	-	2,444,863
Public safety	2,249,826	-	-	111,224	2,361,050
Highways	-	2,012,430	-	-	2,012,430
Health and welfare	169,269	-	-	1,692,301	1,861,570
Culture and recreation	545,640	-	-	44,037	589,677
Conservation of natural resources	235,845	-	-	391,783	627,628
Economic development	920,209	-	-	-	920,209
Other	404,065	-	-	-	404,065
Capital outlay	19,263,797	40,065,805	-	93,291	59,422,893
Debt Service					
Interest	-	-	1,049,604	-	1,049,604
Total expenditures	26,233,514	42,078,235	1,049,604	2,332,636	71,693,989
Excess (deficiency) of Revenues over Expenditures	36,601,871	(34,239,042)	-	4,747,627	7,110,456
Other Financing Sources (Uses)					
Sale of assets	15,000	-	-	-	15,000
Transfers in	206,762	27,750,000	-	-	27,956,762
Transfers out	(24,155,000)	(48,964)	-	(3,752,798)	(27,956,762)
Total other financing sources and (uses)	(23,933,238)	27,701,036	-	(3,752,798)	15,000
Net Change in Fund Balances	12,668,633	(6,538,006)	-	994,829	7,125,456
Fund Balance - January 1	37,764,436	46,509,464	-	2,273,351	86,547,251
Fund Balance - December 31	$ 50,433,069	$ 39,971,458	$ -	$ 3,268,180	$ 93,672,707

Net change in fund balance - total governmental funds		$ 7,125,456
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	$ 59,422,893	
Contributed capital	550,315	
Current year depreciation expense	(13,724,474)	
Gain on disposal of assets	6,459	46,255,193
An internal service fund is used by the County to charge the cost of medical claims to individual functions. The net income of the internal service fund is reported with governmental activities		113,551
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to increase net position		(15,000)
Change in net position of governmental activities		$ 53,479,200

	Internal Service
Assets	
Current assets	
Cash	$ 1,164,045
Net Position	
Unrestricted	$ 1,164,045

	Internal Service
Operating Revenues	
Contributions	$ 2,928,682
Operating Expenses	
Premiums	1,157,779
Claims	1,527,477
Miscellaneous	141,822
Total operating expenses	2,827,078
Operating Gain	101,604
Non-Operating Revenues	
Interest income	9,824
Miscellaneous	2,123
Total nonoperating revenue	11,947
Net Income	113,551
Net Position - January 1	1,050,494
Net Position - December 31	$ 1,164,045

	Internal Service
Cash Flows from Operating Activities	
Cash received from customers and users	$ 2,930,805
Cash paid for health claims	(1,527,477)
Cash paid for services	(1,299,601)
Net Cash from Operating Activities	103,727
Cash Flows from Investing Activities	
Interest received	9,824
Net Change in Cash	113,551
Cash - January 1	1,050,494
Cash - December 31	$ 1,164,045

	Agency Funds
Assets	
Cash and investments	$ 1,549,553
Liabilities	
Due to other governments	$ 1,549,553

	Public Library	Atmospheric Resource Board	JDA Development Funds	Total
Assets				
Cash and investments	$ 281,767	$ 59,018	$ 30,517	$ 371,302
Total assets	$ 281,767	$ 59,018	$ 30,517	$ 371,302
Net Position				
Restricted for				
Culture and recreation	$ 281,767	$ -	$ -	$ 281,767
Conservation of natural resources	-	59,018	-	59,018
Economic development	-	-	30,517	30,517
Total net position	$ 281,767	$ 59,018	$ 30,517	$ 371,302

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Public Library	Atmospheric Resource Board	JDA Development Funds	Totals
Component units								
Public Library	$ 307,796	$ 10,246	$ 173,821	$ -	$ (123,729)	$ -	$ -	$ (123,729)
Atmospheric Resource Board	-	-	-	-	-	-	-	-
Job Development Authority	1,026,345	-	900,000	-	-	-	(126,345)	(126,345)
Total component units	$ 1,334,141	$ 10,246	$ 1,073,821	$ -	(123,729)	-	(126,345)	(250,074)
General revenues								
Taxes								
Property taxes, levied for general purposes					242,849	-	139,421	382,270
State aid not restricted to specific program					-	-	14,970	14,970
Interest					139	-	-	139
Miscellaneous revenue					-	-	100	100
Total general revenues					242,988	-	154,491	397,479
Change in net position					119,259	-	28,146	147,405
Net position - January 1					162,508	59,018	2,371	223,897
Net position - December 31					$ 281,767	$ 59,018	$ 30,517	$ 371,302

Note 1 - Summary of Significant Accounting Policies

The financial statements of McKenzie County, Watford City, North Dakota, have been prepared in conformity with the modified cash basis of accounting as applicable to governments. 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 McKenzie 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 criteria includes appointing a voting majority of an organization's governing body and (1) the ability of McKenzie 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 McKenzie County.

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

Component Units

In conformity with the modified cash basis of accounting, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Units – The component unit columns in the combined financial statements include the financial data of the County's four component units. These units are reported in separate columns to emphasize that they are legally separate from the County.

McKenzie County Atmospheric Resource Board – The members of the governing board are appointed by the Board of County Commissioners. The County Commission can approve, disapprove or amend the authority's budget.

Public Library – The library is governed by a six-member board, three appointed by the City of Watford City and three by McKenzie County. The records are maintained by McKenzie County with the County Commissioners approving all expenditures. Funds for the library are supplied through a county wide tax levy. The purpose of the library is to provide library services to the citizens of McKenzie County.

JDA Development – The members of the governing board are appointed by the Board of County Commissioners. The County Commission can approve, disapprove or amend the JDA Development fund's budget.

Component Unit Financial Statements – The financial statements of the discretely presented component units are presented in the County's basic financial statements. Complete financial statements of the individual component units can be obtained from the McKenzie County Auditor, 201 5th Street NW, PO Box 543, Watford City, North Dakota 58854-0543.

The McKenzie County Water Resource District is also a component unit of the County. For the year ended December 31, 2017, the County has excluded the McKenzie County Water Resource District from the County's basic financial statements.

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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, 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 instead 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.

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. The same formal action of the highest level of decision making authority is required to rescind a commitment.
- 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.

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."

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary 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. This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements.

Governmental funds are reported using the current financial 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.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets, notes receivable and long-term debt are recorded under the basis of accounting described above 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.

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.

Debt Service Fund – This is the County's fund used to account for the payments on the outstanding certificates of indebtedness by using oil and gas production tax revenues.

Additionally, the County reports the following fund types:

Internal Service Fund – This fund is used to account for the health insurance coverage provided by one department or agency to other departments or agencies of the governmental unit, on a cost-reimbursement basis.

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. 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) changes 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.

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

Restricted and Unrestricted Resources

It is the County's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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 a maturity date in excess of 90 days, stated at cost.

Capital Assets

Primary Government

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns 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 acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential.

General infrastructure assets consist of the road and bridge projects constructed 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	10-40
Furniture and equipment	5-25
Infrastructure	20-50
Vehicles and equipment	5-10

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.

Tax Revenues

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; and 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.

Pensions

For the purposes of measuring 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' 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 12, is shown as additional information to the users of the financial statements.

Other Post Employment Benefits (OPEB)

For the purposes of measuring the net OPEB liability and 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. The net OPEB liability is not reported under the modified cash basis of accounting, but the information disclosed in the OPEB footnote, Note 13, is shown as additional information to the users of the financial statements.

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.

Note 2 - Legal Compliance – Budget

Budget

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 and Investments

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 the year ended December 31, 2017, the pooled bank balances for all County and fiduciary funds was $95,250,319. The carrying amount of the pooled deposits for the County and fiduciary funds was $92,611,962 with $91,062,409 in County funds and $1,549,553 in fiduciary funds. Of the bank balances, $750,000 was covered by Federal Depository Insurance and National Credit Union Share Insurance. Balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

The other discretely presented component units' balances were covered by Federal Depository Insurance or collateralized with securities held by the pledging financial institution's agent in the government's name.

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, nor do the fiduciary funds or component units. All investments are certificates of deposit that mature within 1 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.

As of December 31, 2017, the County held certificates of deposit in the amount of $1,600,000, of which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2017, the County held certificates of Deposit with the following maturity dates:

	Less Than Within 1 Year	1 to 5 Years	Thereafter	Total
Certificates of Deposit	$ 400,000	$ 1,200,000	$ -	$ 1,600,000

Concentration of Credit Risk

The County does not have a limit on the amount it may invest in any one issuer; all deposits and investments are held with the following three financial institutions: McKenzie County Bank, First International Bank, and Dakota West Credit Union.

Note 4 - Note Receivable

On March 6, 2013, the County entered into an agreement to loan the McKenzie County Water Resource District $4,500,000. The loan was provided in two advances with a first advance of $3,000,000 and a second advance of $1,500,000. The note is unsecured and bears interest at 2.5% through February 2018 at which time the interest rate becomes variable equal to the prime rate for loans originated by the Bank of North Dakota less 0.75% not to be less than 0%. The note matures in February 2033 and is due in annual principal payments ranging from approximately $175,000 to $275,000 plus accrued interest. The note receivable balance as of December 31, 2017 was $3,774,343. As noted in Note 1, the McKenzie County Water Resource District, a component unit of the County, has been excluded from the County's basic financial statements.

Note 5 - Capital Assets

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

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	$ 4,811,512	$ -	$ -	$ 4,811,512
Construction in progress	72,482,888	28,694,251	70,529,473	30,647,666
Total capital assets, not being depreciated	77,294,400	28,694,251	70,529,473	35,459,178
Capital assets being depreciated				
Buildings	34,571,929	44,085,065	-	78,656,994
Furniture and equipment	3,601,640	391,198	9,411	3,983,427
Infrastructure	160,914,306	55,095,937	-	216,010,243
Vehicles and equipment	19,638,825	2,614,016	835,862	21,416,979
Total capital assets, being depreciated	218,726,700	102,186,216	845,273	320,067,643
Less accumulated depreciation for				
Buildings	8,550,132	2,856,060	-	11,406,192
Furniture and equipment	1,451,190	496,997	9,411	1,938,776
Infrastructure	30,483,405	8,215,596	-	38,699,001
Vehicles and equipment	7,139,517	2,155,821	449,535	8,845,803
Total accumulated depreciation	47,624,244	13,724,474	458,946	60,889,772
Total capital assets being depreciated, net	171,102,456	88,461,742	386,327	259,177,871
Governmental activities - capital assets, net	$ 248,396,856	$ 117,155,993	$ 70,915,800	$ 294,637,049

The County had commitments of approximately $15,700,641 outstanding at December 31, 2017 related to construction in progress.

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

Governmental Activities	
General government	$ 3,125,696
Public safety	367,641
Highways	10,099,010
Health and welfare	25,480
Culture and recreation	36,385
Conservation of natural resources	70,262
Total depreciation expense - governmental activities	$ 13,724,474

Note 6 - Long-Term Liabilities

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

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of indebtedness	$ 40,688,588	$ -	$ -	$ 40,688,588	$ 4,485,474
Total	$ 40,688,588	$ -	$ -	$ 40,688,588	$ 4,485,474

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

Certificate of Indebtedness

$40,688,588 Certificate of Indebtedness Series 2015 - due in semi-annual installments of $2,312,450 through August 18, 2027; interest payments only through February 8, 2018, variable interest rate (2.88% at December 31, 2017), liquidated out of the Debt Service Fund	$ 40,688,588
	$ 40,688,588

Debt service requirements on long-term debt at December 31, 2017 are as follows:

Year Ending December 31	Certificate of Indebtedness Principal	Certificate of Indebtedness Interest
2018	$ 4,485,474	$ 691,868
2019	4,083,323	1,094,018
2020	4,195,627	981,713
2021	4,311,021	866,320
2022	4,429,588	757,743
2023-2027	19,183,555	1,842,933
	$ 40,688,588	$ 6,234,595

The County has not drawn the full available amount of $57,200,000 on the certificates as of December 31, 2017. The certificate of indebtedness is payable through 2027. The total principal and interest remaining to be paid on the certificate is $46,923,183. Principal payments were not made during the year and interest payments of $1,049,604 were made during the year.

Note 7 - Transfers

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

Funds	Transfers In	Transfers Out
General Fund	$ 206,762	$ 24,155,000
County Road and Bridge	27,750,000	48,964
Other Governmental Funds	-	3,752,798
Total transfers	$ 27,956,762	$ 27,956,762

Transfers were made to move revenues from the fund that is required to collect them to funds that are allowed to expend them and also to finance various programs in accordance with budgetary authorization.

Note 8 - Related Organization

McKenzie County is also responsible for levying a property tax for the Historical Society but the County's accountability for this entity does not extend beyond levying the tax. In 2017, the County remitted $43,884 to the Historical Society.

Note 9 - Risk Management

McKenzie 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.

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. McKenzie 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 $12,488,322 for inland marine coverage as of December 31, 2017.

McKenzie County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. McKenzie 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 McKenzie 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.

McKenzie County has workers compensation coverage with the North Dakota Workforce Safety and Insurance and pays for a single policy health insurance.

The County has retained risk for employee health and accident up to a maximum of $20,000 per individual. The County has purchased a stop loss policy for amounts in excess of $20,000 per employee.

Settled claims resulting from these risks have not exceeded insurance coverage.

Note 10 - Joint Venture

Upper Missouri District Health Unit

McKenzie County entered into a joint venture with Divide, Williams and Mountrail Counties for the operation of the Upper Missouri District Health Unit. Each participating county's share of the cost of operations and board member appointments is determined by the property valuation of each county.

Audited summary financial information for the year ended December 31, 2017, the last year audited, is as follows:

Cash and investments	$ 1,361,720
Total assets and deferred outflows of resources	2,862,698
Total liabilities and deferred inflows of resources	2,611,147
Total equity	251,551
Total revenues	3,044,687
Total expenditures	2,991,513
Net increase in equity	$ 53,174

Note 11 - Joint Powers Agreement

McKenzie County Correctional Facility, Law Enforcement Center

McKenzie County entered into a joint powers agreement with the City of Watford City in order to combine the physical location of the McKenzie County Sherriff's Office and the Watford City Police Department and to establish joint administration of a city-county regional correctional center. McKenzie County has made certain investments in the approximate amount of $55,000,000 for the construction of the McKenzie County Correctional Facility (MCCF) and Law Enforcement Center (LEC). Watford City has made certain infrastructure investments in the approximate amount of $5,000,000 for the construction of the MCCF and LEC. The joint powers agreement shall last for a period of 99 years, unless terminated according to the provisions outlined in the agreement. Recognizing the substantial investment by both parties, it is the intent of both to continue this agreement for so long as the MCCF or LEC exist.

The Governing Authority of the MCCF/LEC is comprised of two members of the McKenzie County Board of Commissioners, two members of the Watford City Council, and one citizen member at large appointed by the Governing Authority. The McKenzie County Auditor serves as the secretary of the Governing Authority but is not a member of the Governing Authority and has no vote. The McKenzie County State's Attorney serves as legal counsel of the Governing Authority.

The MCCF/LEC will house the McKenzie County Sheriff's Office and the Watford City Police Department with no rental fees. The Governing Authority shall recommend lease terms for other tenants such as the North Dakota Bureau of Criminal Investigation and the North Dakota State Highway Patrol. McKenzie County is responsible for approving and executing any lease agreements with organizations other than the Sherriff's Office and Police Department.

McKenzie County is responsible for hiring an Administrator for the MCCF on the recommendation of the Governing Authority. The Administrator is an employee of McKenzie County reporting to the Governing Authority. The Facilities Manager of the LEC is an employee of McKenzie County, and McKenzie County shall make all formal personnel actions regarding the Facilities Manager, although the Governing Authority may prepare reports and recommendations for the County Commissioners regarding the Facilities Manager. Corrections Officers and Maintenance Staff of the LEC are McKenzie County employees subject to the procedures set out in the McKenzie County Employee Handbook.

McKenzie County and Watford City are individually responsible for expenses incurred in operating their own portion of the LEC. McKenzie County is solely responsible for the MCCF. A Common Area Maintenance Fund will be funded by McKenzie County and Watford City proportional to square footage to provide for shared expenses that cannot be easily allocated. Bills to be paid from the Common Area Maintenance Fund shall be authorized by the Governing Authority, then submitted to McKenzie County for payment. Watford City shall be invoiced for their share of the bill. Any funds generated from a lease for LEC space shall be deposited to the Common Area Maintenance Fund. The Governing Authority has the authority to enter into contracts up to $5,000. Contracts exceeding $5,000 require approval by a majority vote of both McKenzie County and Watford City. The Governing Authority is responsible for preparing a budget for the Common Area Maintenance Fund on or before September 1 for the upcoming year. This budget must be approved by McKenzie County and Watford City. McKenzie County is responsible for property insurance, and the individual occupants are responsible for insurance coverage for their own equipment, personnel, operations, and other liabilities.

Note 12 - Pension Plan

North Dakota Public Employees Retirement System (Main System and Law Enforcement System)

The following brief description of NDPERS Main System and Law Enforcement System 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.

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System 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 statue. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). 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 of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the Law Enforcement 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 50-55 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 and Law Enforcement, 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 and Law Enforcement, 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 and Law Enforcement is not vested (is not 65 or does not have three years of service), they will receive the accumulated member 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 state statute and are a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation for Public Employees Retirement System.

Contribution rates for the Law Enforcement System are established as follows:

Plan	**Member contribution rate**	**Employer contribution rate**
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	10.31%
National Guard	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

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 for the Main System and the Law Enforcement System was $15,916,551 and $1,731,959, respectively. 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 and the Law Enforcement System pension plans relative to the covered payroll of all participating Main System and Law Enforcement employers. At July 1, 2017, the Employer's proportion was 0.990249 percent for the Main System and 7.866753 percent for the Law Enforcement System which was an increase of 0.173972 percent and increase of 1.240145 percent, respectively, from its proportion measured as of July 1, 2016. The Employer's proportionate share of the net pension liability and any deferred inflows and outflows are 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 (Payroll Growth)	Years of Service at beginning of Year	
	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	7.75%, net of investment expenses, including inflation	
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:

Asset Class	Target Allocation	Expected Real Rate of Return
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			
Main System:	$ 21,607,205	$ 15,916,551	$ 11,182,164
Law Enforcement System:	2,606,285	1,731,959	1,020,605

Pension Plan Fiduciary Net Position

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

Note 13 - Other Post Employment Benefits

The following brief description of NDPERS is proved 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 (RHIC) 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.

Net OPEB Liability

At December 31, 2017, the Employer’s proportionate share of the net OPEB liability is $904,591. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer’s proportion of the net OPEB liability was based on the Employer’s share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At July 1, 2017, the Employer’s proportion was 1.143589%.

Actuarial Assumptions

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

Inflation rate	2.50%
Investment Rate of Return	7.5%, net of investment expenses
Salary Increases	Not applicable
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 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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.5%. 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 July 1, 2017, and July 1, 2016, 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 Employer'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, 2017, 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:

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
County's proportionate share of the NDPERS net OPEB liability	$ 1,132,438	$ 904,591	$ 709,286

Note 14 - Landfill Post Closure Costs

State and federal laws and regulations require the County to place a final cover on its County landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County does not report the closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date under the modified cash basis of accounting. The operating expenses that would have been reported in 2017 if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America were $78,676. The estimated landfill closure and post closure care liability at December 31, 2017, that would have been reported if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America was $1,380,588 which is based on the use of approximately 55 percent of the estimated capacity of the landfill and total estimated closure and post closure costs of $2,490,303. Under the modified cash basis of accounting used, the County will recognize these costs when payments occur. These amounts are based on what it would cost to perform all closure and post closure care in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to determine the method they would choose to finance the closure and post closure costs. Beginning in 2013, the County began utilizing the financial test to demonstrate financial assurance for closure and/or post-closure costs for the landfill, as specified in section 33-20-14-02 through 33-20-14-07 of the NDCC. The County expects that future inflation costs will be paid from operating revenue. However, if the funds are inadequate or additional post closure requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered from future tax revenue.

Note 15 - Contingencies

Litigation

The County is a defendant in one lawsuit. The lawsuit, filed by a road construction contractor alleging breach of contract. The County settled for $1,672,915 on June 20, 2018. No charges to expenditures or liabilities were accrued in the accompanying 2017 financial statements as the County reports on the modified cash basis of accounting.

Note 16 - Subsequent Events

The County entered into construction contracts totaling $15,700,641 subsequent to year end for road maintenance and improvements.

On December 12, 2018, the County issued state aid refunding certificates of indebtedness series 2018 in the amount of $35,140,000. The proceeds of the certificates of indebtedness series 2018 were used to pay the outstanding principal and interest of the certificates of indebtedness series 2015 in full.

Supplementary Information
December 31, 2017

McKenzie County

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	$ 952,249	$ 952,249	$ 1,227,800	$ 275,551
Licenses, permits and fees	1,105,500	1,105,500	5,695,560	4,590,060
Intergovernmental	36,300,000	36,300,000	46,326,417	10,026,417
Charges for services	2,960,150	2,960,150	2,205,649	(754,501)
Royalties	500,000	500,000	6,546,795	6,046,795
Interest income	100,000	100,000	109,039	9,039
Miscellaneous	525,000	525,000	724,125	199,125
Total revenues	42,442,899	42,442,899	62,835,385	20,392,486
Expenditures				
Current				
General government	32,226,338	32,226,338	2,444,863	29,781,475
Public safety	9,754,063	9,754,063	2,249,826	7,504,237
Health and welfare	-	-	169,269	(169,269)
Culture and recreation	-	-	545,640	(545,640)
Conservation of natural	-	-		
resources		-	235,845	(235,845)
Economic development	-	-	920,209	(920,209)
Other	-	-	404,065	(404,065)
Capital outlay	-	-	19,263,797	(19,263,797)
Total expenditures	41,980,401	41,980,401	26,233,514	15,746,887
Excess of Revenues over Expenditures	462,498	462,498	36,601,871	36,139,373
Other Financing Sources (Uses)				
Sale of assets	-	-	15,000	15,000
Loan proceeds	16,500,000	16,500,000	-	(16,500,000)
Transfers in	-	-	206,762	206,762
Transfers out	(24,455,000)	(24,455,000)	(24,155,000)	300,000
Total other financing sources and (uses)	(7,955,000)	(7,955,000)	(23,933,238)	(15,978,238)
Net Change in Fund Balances	(7,492,502)	(7,492,502)	12,668,633	20,161,135
Fund Balance - January 1	37,764,436	37,764,436	37,764,436	-
Fund Balance - December 31	$ 30,271,934	$ 30,271,934	$ 50,433,069	$ 20,161,135

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	$ 1,786,300	$ 1,786,300	$ 2,007,433	$ 221,133
Special assessments	8,163	8,163	16,865	8,702
Intergovernmental	4,197,034	4,197,034	5,041,801	844,767
Charges for services	1,000,000	1,000,000	593,533	(406,467)
Interest income	-	-	48,964	48,964
Miscellaneous	-	-	130,597	130,597
Total revenues	6,991,497	6,991,497	7,839,193	847,696
Expenditures				
Current				
Highways	27,116,720	27,116,720	2,012,430	25,104,290
Capital outlay	37,436,000	37,436,000	40,065,805	(2,629,805)
Total expenditures	64,552,720	64,552,720	42,078,235	22,474,485
Excess (Deficiency) of Revenues over Expenditures	(57,561,223)	(57,561,223)	(34,239,042)	23,322,181
Other Financing Sources (Uses)				
Transfers in	27,750,000	27,750,000	27,750,000	-
Transfers out	-	-	(48,964)	(48,964)
Total other financing sources and (uses)	27,750,000	27,750,000	27,701,036	(48,964)
Net Change in Fund Balances	(29,811,223)	(29,811,223)	(6,538,006)	23,273,217
Fund Balance - January 1	46,509,464	46,509,464	46,509,464	-
Fund Balance - December 31	$ 16,698,241	$ 16,698,241	$ 39,971,458	$ 23,273,217

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	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Employer's Covered-Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
NDPERS Main System	6/30/2015	0.644316%	$ 4,381,239	$ 5,740,070	76.33%	77.15%
NDPERS Main System	6/30/2016	0.816277%	$ 7,955,415	$ 8,226,148	96.71%	70.46%
NDPERS Main System	6/30/2017	0.990249%	$ 15,916,551	$ 10,108,894	157.45%	61.98%
NDPERS Law Enforcement	6/30/2015	6.392353%	$ 388,369	$ 936,891	41.45%	83.61%
NDPERS Law Enforcement	6/30/2016	6.626608%	$ 759,307	$ 1,870,420	40.60%	78.73%
NDPERS Law Enforcement	6/30/2017	7.866753%	$ 1,731,959	$ 2,262,925	76.54%	69.86%

Schedule of Employer’s Contributions – Pension
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-Payroll (d)	Contributions as a Percentage of Covered-Payroll (a/d)
NDPERS Main System	12/31/2015	$ 436,005	450,486	$ (14,481)	$ 5,740,070	7.85%
NDPERS Main System	12/31/2016	$ 595,560	572,677	$ 22,883	$ 8,226,148	6.96%
NDPERS Main System	12/31/2017	$ 733,018	616,869	$ 116,149	$ 10,108,894	6.10%
NDPERS Law Enforcement	12/31/2015	$ 101,186	124,379	$ (23,193)	$ 936,891	13.28%
NDPERS Law Enforcement	12/31/2016	$ 157,985	183,258	$ (25,273)	$ 1,870,418	9.80%
NDPERS Law Enforcement	12/31/2017	$ 236,423	195,008	$ 41,415	$ 2,262,925	8.62%

Note 1 - Schedule of Employer’s Share of Net Pension Liability and Schedule of Employer’s Contributions – Pension

GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, McKenzie 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, 2017 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.

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

Other Post Employment Benefits Plan	Measurement Date	Employer's Proportion (Percentage) of the Net OPEB Liability	Employer's Proportionate Share (Amount) of the Net OPEB Liability (a)	Employer's Covered-Payroll (b)	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
NDRHICF	6/30/2017	1.143589%	$ 904,591	$ 12,371,819	7.31%	59.78%

Schedule of Employer's Contributions – OPEB
ND Public Employees Retirement System
Last 10 Fiscal Years

Other Post Employment Benefits 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-Payroll (d)	Contributions as a Percentage of Covered-Payroll (a/d)
NDRHICF	12/31/2017	$ 143,813	$ (121,429)	$ 22,384	$ 12,371,819	0.98%

Note 3 - Schedule of Employer's Share of Net OPEB Liability and Schedule of Employer's Contributions – OPEB

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

Note 4 - Changes of Assumptions

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

Federal Grantor, Pass-through Grantor and Program Title	Federal CFDA Number	Grant Number	Expenditures 2017
U.S. Department of Agriculture			
Direct Program			
Forest Service Schools and Roads Cluster			
School and Roads - Grants to Counties (Bankhead-Jones)	10.666		$ 4,784,609
U.S. Department of Interior			
Direct Program			
Taylor Grazing	15.227		36
Passed-Through State Treasurer			
Flood Control Act	15.433		3,357,723
Mineral Leasing Act (Public Domain Royalties)	15.437		5,362,018
Total U.S. Department of Interior			8,719,777
U.S. Department of Health and Human Services			
Passed-Through State Department of Human Services			
Family Preservation and Support Services	93.556		217
Temporary Assistance for Needy Families Cluster			
Temporary Assistance for Needy Families	93.558	S114	110,440
Child Support Enforcement	93.563	S035	1,096
Child Care Development Fund Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	S115	1,821
Children Justice Grants to States	93.643		289
Child Welfare Services - State Grants	93.645	S073	1,760
Foster Care Title IV-E	93.658	S067	126,551
Adoption Assistance	93.659	S070	1,603
Maternal and Child Health Services Block Grant to the States	93.994	S023	2,195
Total U.S. Department of Health and Human Services			245,972
U.S. Department of Homeland Security			
Passed-Through State Department of Emergency Services			
Hazardous Materials Emergency Preparedness (HMEP) Exercise	20.703	P07816	11,200
Emergency Management Performance	97.042	P03216	20,007
Emergency Management Performance	97.042	P03217	22,569
Subtotal Emergency Management Performance			42,576
Total U.S. Department of Homeland Security			53,776
Total Reporting Entity Expenditures of Federal Awards			$ 13,804,170

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McKenzie County (the Organization) under programs of the federal government for the year ended December 31, 2017. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of McKenzie County, it is not intended to and does not present the financial position, changes in net assets (*or net position or fund balance*), or cash flows of McKenzie County.

Note B – Significant Accounting Policies

Expenditures reported in the schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

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

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
McKenzie County
Watford City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, Watford City, North Dakota, as of and for the years ended December 31, 2017, and the related notes to the financial statements, which collectively comprise McKenzie County's basic financial statements, and have issued our report thereon dated March 22, 2019. Our report included an adverse opinion on the aggregate discretely presented component units.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered McKenzie 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 McKenzie County's internal control. Accordingly, we do not express an opinion on the effectiveness of McKenzie 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 findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as items 2017-A, 2017-B, and 2017-C, to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether McKenzie 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*.

McKenzie County's Responses to Findings
McKenzie County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. McKenzie 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.

Eide Bailly LLP

Bismarck, North Dakota
March 22, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program: and Report on Internal Control over Compliance Required by the Uniform Guidance

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on Compliance for Each Major Federal Program
We have audited McKenzie County, Watford City, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of McKenzie County's major federal programs for the years ended December 31, 2017. McKenzie County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for each of McKenzie County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government *Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McKenzie County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of McKenzie County's compliance.

Opinion on Each Major Federal Program
In our opinion, McKenzie County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the years ended December 31, 2017.

Report on Internal Control over Compliance
Management of McKenzie County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered McKenzie County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McKenzie County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
March 22, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information	Unmodified
Type of auditor's report issued on the discretely presented component unit	Adverse
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance.	No

Identification of major programs:

Name of Federal Program	CFDA number
Flood Control Act	15.433
Mineral Leasing Act	15.437

Dollar threshold used to distinguish between Type A and Type B programs	$ 750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

2017-A Segregation of Duties

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.

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

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

Effect - Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material 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 – The Treasurer's Office was vacated by resignation of the elected Treasurer in December 2014, leaving no employees in that department. Since that time, the Commissioners have combined the Treasurer's office with the Auditor's office, effective May 2015. Duties are segregated by rotating the person responsible for the daily work so that the one conducting the daily balancing and producing the month-end reports and/or general ledger work are not always the same people. The Treasurer's office staff work closely with the Auditor's office staff to provide daily receipt and disbursement reports and compare general ledger records on a monthly basis.

2017-B Recording of Transactions

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

Condition – We identified misstatements in the County's financial statements causing us to propose material audit adjustments.

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 would 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. Also any adjustments needed to present the financial statements on a modified cash basis should be recorded.

Response – Since it is not cost-effective for an organization of our size to have staff prepare all adjustments needed for an audit-ready trial balance, we have chosen to hire Eide Bailly, a public accounting firm, to assist us in preparing these transactions.

2017-C Preparation of Financial Statements related Footnotes and Schedule of Federal Expenditures

Criteria - Proper controls over financial reporting include the ability to prepare financial statements, accompanying notes to the financial statements, and a schedule of federal expenditures that are materially correct.

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements and schedule of federal expenditures being audited. As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. 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.

Cause - The County has limited staff available to prepare financial statements internally at this time.

Effect - Inadequate control over financial reporting of McKenzie County could result in more than a remote likelihood that the financial statements, accompanying notes to the financial statements, and schedule of federal expenditures are not materially correct without the assistance of the auditors.

Recommendation - While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of McKenzie County and changes in reporting requirements.

Response - Since it is not cost-effective for an organization of our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of McKenzie County.