

North Dakota Office of the State Auditor Division of Local Government

Nelson County

Lakota, North Dakota

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



North Dakota State Auditor
Joshua C. Gallion

NELSON COUNTY

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NELSON COUNTY

County Officials and Audit Personnel
December 31, 2018 and 2017

COUNTY OFFICIALS

At December 31, 2018

Bruce Ellertson	Commissioner - Chairman
Nancy Marquart	Commissioner - Vice Chairman
Donald Fougner	Commissioner
Alan Klefstad	Commissioner
Maynard Loibl	Commissioner
Sheila Fisk	Auditor
Bernadette Matejcek	Treasurer
Keith Olson	Sheriff
Becky Nelson	Recorder/Clerk of Court
Jayne Tenneson	State's Attorney

At December 31, 2017

Maynard Loibl	Commissioner - Chairman
Bruce Ellertson	Commissioner - Vice Chairman
Donald Fougner	Commissioner
Alan Klefstad	Commissioner
Nancy Marquart	Commissioner
Sheila Fisk	Auditor
Bernadette Matejcek	Treasurer
Keith Olson	Sheriff
Ruth Stevens	Recorder/Clerk of Court
Jayne Tenneson	State's Attorney

AUDIT PERSONNEL

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



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Nelson County
Lakota, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Nelson County, North Dakota, as of and for the years ended December 31, 2018 and December 31, 2017, and the related notes to the financial statements, which collectively comprise Nelson County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Nelson County, North Dakota, as of December 31, 2018 and December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

Other Matters

Required Supplementary Information

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

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nelson County's basic financial statements. The *schedule of fund activity - cash basis* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of fund activity - cash basis* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the schedule of fund activity - cash basis* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020 on our consideration of Nelson County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nelson County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
January 30, 2020

NELSON COUNTY
Statement of Net Position
December 31, 2018

	Primary	Component Units	
	Governmental Activities	Water Resource Board	Job Development Authority
ASSETS			
Cash and Investments	\$ 1,944,908	\$ 143,675	\$ 137,499
Road Receivable	40,135	-	-
Loan Receivable	-	-	69,762
Taxes Receivable	64,422	2,986	2,986
Intergovernmental Receivable	172,271	-	-
Capital Assets			
Nondepreciable	15,580	-	-
Depreciable, Net	2,699,492	4,492,538	-
Total Assets	\$ 4,936,808	\$ 4,639,199	\$ 210,247
DEFERRED OUTFLOWS OF RESOURCES			
Net Pension & OPEB Liabilities	\$ 1,072,519	\$ -	\$ -
Total Assets & Deferred Outflows of Resources	\$ 6,009,327	\$ 4,639,199	\$ 210,247
LIABILITIES			
Accounts Payable	\$ 56,104	\$ 17,839	\$ -
Salaries Payable	22,969	5,469	-
Interest Payable	-	20,957	-
Long-Term Liabilities			
Due Within One Year			
Long Term Debt	-	117,500	-
Compensated Absences Payable	34,004	-	-
Due After One Year			
Long Term Debt	-	875,000	-
Compensated Absences Payable	51,006	-	-
Net Pension & OPEB Liabilities	2,654,534	-	-
Total Liabilities	\$ 2,818,617	\$ 1,036,765	\$ -
DEFERRED INFLOWS OF RESOURCES			
Net Pension & OPEB Liabilities	\$ 156,338	\$ -	\$ -
Total Liabilities & Deferred Inflows of Resources	\$ 2,974,955	\$ 1,036,765	\$ -
NET POSITION			
Net Investment in Capital Assets	\$ 2,715,072	\$ 3,500,038	\$ -
Restricted for			
Highways	9,739	-	-
Flood Control	16,669	-	-
Conservation of Natural Resources	125,228	102,396	-
Emergencies	125,222	-	-
Economic Development	5	-	210,247
General Government	42,437	-	-
Total Net Position	\$ 3,034,372	\$ 3,602,434	\$ 210,247

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

NELSON COUNTY

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government	Component Units	
				Governmental Activities	Water Resource Board	Job Development Authority
Primary Government						
Governmental Activities						
General Government	\$ 1,891,250	\$ 59,672	\$ 206,000	\$ (1,625,578)	\$ -	\$ -
Public Safety	509,012	91,833	2,378	(414,801)	-	-
Highways	1,729,489	320,680	604,437	(804,372)	-	-
Health and Welfare	546,993	3,365	574,989	31,361	-	-
Culture and Recreation	173,440	144,161	-	(29,279)	-	-
Conser. of Natural Resources	170,697	10,967	58,992	(100,738)	-	-
Economic Development	44,843	44,848	-	5	-	-
Emergencies	67,881	-	6,668	(61,213)	-	-
Total Primary Government	\$ 5,133,605	\$ 675,526	\$ 1,453,464	\$ (3,004,615)	\$ -	\$ -
Component Units						
Water Resource Board	\$ 530,882	\$ 1,036	\$ 87,367	\$ -	\$ (442,479)	\$ -
Job Development Authority	77,579	3,498	-	-	-	(74,081)
General Revenues						
Property Taxes				\$ 1,982,784	\$ 324,923	\$ 97,335
Unrestricted State Shared Revenue				420,067	-	519
Earnings on investments				11,688	315	130
Miscellaneous revenue				32,487	27,254	-
Total General Revenues				\$ 2,447,026	\$ 352,492	\$ 97,984
Change in Net Position				\$ (557,589)	\$ (89,987)	\$ 23,903
Net Position - January 1				\$ 3,591,961	\$ 3,692,421	\$ 186,344
Net Position - December 31				\$ 3,034,372	\$ 3,602,434	\$ 210,247

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

NELSON COUNTY

Balance Sheet – Governmental Funds
 December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 624,356	\$ 1,320,552	\$ 1,944,908
Road Receivable	-	40,135	40,135
Taxes Receivable	40,033	24,389	64,422
Intergovernmental Receivable	103,665	68,606	172,271
Total Assets	\$ 768,054	\$ 1,453,682	\$ 2,221,736
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 25,451	\$ 30,653	\$ 56,104
Salaries Payable	656	22,313	22,969
Total Liabilities	\$ 26,107	\$ 52,966	\$ 79,073
Deferred Inflows of Resources			
Road Receivable	\$ -	\$ 40,135	\$ 40,135
Taxes Receivable	40,033	24,389	64,422
Total Deferred Inflows of Resources	\$ 40,033	\$ 64,524	\$ 104,557
Total Liabilities and Deferred Inflows of Resources	\$ 66,140	\$ 117,490	\$ 183,630
Fund Balances			
Restricted			
Public Safety	\$ -	\$ 8,017	\$ 8,017
Highways	-	855,102	855,102
Flood Control	-	16,669	16,669
Health and Welfare	-	155,559	155,559
Conservation of Natural Resources	-	121,437	121,437
Economic Development	-	5	5
Emergencies	-	124,461	124,461
General Government	-	54,942	54,942
Unassigned	701,914	-	701,914
Total Fund Balances	\$ 701,914	\$ 1,336,192	\$ 2,038,106
Total Liabilities and Fund Balances	\$ 768,054	\$ 1,453,682	\$ 2,221,736

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

NELSON COUNTY

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

Total Fund Balances for Governmental Funds		\$ 2,038,106
Total <i>net position</i> 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.		2,715,072
Property taxes and road receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.		
Property Taxes Receivable	\$ 64,422	
Road Department Accounts Receivable	<u>40,135</u>	104,557
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred Outflows Related to Pensions & OPEB	\$ 1,072,519	
Deferred Inflows Related to Pensions & OPEB	<u>(156,338)</u>	916,181
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.		
Net Pension Liability	\$ (2,654,534)	
Compensated Absences	<u>(85,010)</u>	<u>(2,739,544)</u>
Total Net Position of Governmental Activities		<u><u>\$ 3,034,372</u></u>

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

NELSON COUNTY

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

	General	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 1,295,649	\$ 694,442	\$ 1,990,091
Intergovernmental	648,917	1,269,463	1,918,380
Charges for Services	295,666	501,341	797,007
Interest Income	11,688	-	11,688
Miscellaneous	28,201	4,286	32,487
Total Revenues	\$ 2,280,121	\$ 2,469,532	\$ 4,749,653
EXPENDITURES			
Current			
General Government	\$ 1,779,620	\$ 200	\$ 1,779,820
Public Safety	366,994	104,493	471,487
Highways	-	1,467,516	1,467,516
Health and Welfare	-	487,169	487,169
Culture and Recreation	130,150	-	130,150
Conserv. of Natural Resources	-	167,083	167,083
Economic Development	-	44,843	44,843
Emergencies	-	67,881	67,881
Total Expenditures	\$ 2,276,764	\$ 2,339,185	\$ 4,615,949
Excess (Deficiency) of Revenues Over Expenditures	\$ 3,357	\$ 130,347	\$ 133,704
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ -	\$ 1,866	\$ 1,866
Transfers Out	(1,000)	(866)	(1,866)
Total Other Financing Sources and Uses	\$ (1,000)	\$ 1,000	\$ -
Net Change in Fund Balances	\$ 2,357	\$ 131,347	\$ 133,704
Fund Balance - January 1	\$ 699,557	\$ 1,204,845	\$ 1,904,402
Fund Balance - December 31	\$ 701,914	\$ 1,336,192	\$ 2,038,106

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

NELSON COUNTY

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

Net Change in *Fund Balances* - Total Governmental Funds \$ 133,704

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 amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	\$ 30,526	
Current Year Depreciation Expense	<u>(224,808)</u>	(194,282)

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

Increase in Net Pension & OPEB Liability	\$ (190,398)	
Decrease in Deferred Outflows of Resources	(67,238)	
Increase in Deferred Inflows of Resources	<u>(60,323)</u>	(317,959)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. (5,415)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable and decrease road receivables.

Decrease in Taxes Receivable	\$ (7,307)	
Decrease in Road Receivable	<u>(166,330)</u>	<u>(173,637)</u>

Change in Net Position of Governmental Activities \$ (557,589)

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

NELSON COUNTY
Statement of Net Position
December 31, 2017

	Primary Government		Component Unit	
	Governmental Activities	Water Resource Board	Job Development Authority	
ASSETS				
Cash and Investments	\$ 1,698,966	\$ 168,424	\$ 125,995	
Road Receivable	206,465	-	-	
Taxes Receivable	71,729	3,091	3,041	
Loans Receivable	-	-	57,308	
Intergovernmental Receivable	276,107	-	-	
Capital Assets				
Nondepreciable	15,580	-	-	
Depreciable, Net	2,893,774	4,613,325	-	
Total Assets	\$ 5,162,621	\$ 4,784,840	\$ 186,344	
DEFERRED OUTFLOWS OF RESOURCES				
Net Pension & OPEB Liability	\$ 1,139,757	\$ -	\$ -	
Total Assets & Deferred Outflows of Resources	\$ 6,302,378	\$ 4,784,840	\$ 186,344	
LIABILITIES				
Accounts Payable	\$ 46,831	\$ 13,824	\$ -	
Salaries Payable	23,840	5,802	-	
Interest Payable	-	22,793	-	
Long-Term Liabilities				
Due Within One Year				
Long Term Debt	-	87,500	-	
Compensated Absences Payable	31,838	-	-	
Due After One Year				
Long Term Debt	-	962,500	-	
Compensated Absences Payable	47,757	-	-	
Net Pension & OPEB Liability	2,464,136	-	-	
Total Liabilities	\$ 2,614,402	\$ 1,092,419	\$ -	
DEFERRED INFLOWS OF RESOURCES				
Net Pension & OPEB Liability	\$ 96,015	\$ -	\$ -	
Total Liabilities & Deferred Inflows of Resources	\$ 2,710,417	\$ 1,092,419	\$ -	
NET POSITION				
Net Investment in Capital Assets	\$ 2,909,354	\$ 3,563,325	\$ -	
Restricted				
Highways	351,000	-	-	
Flood Control	16,669	-	-	
Conservation of Natural Resources	108,513	129,096	-	
Emergencies	164,193	-	-	
Economic Development	-	-	186,344	
General Government	42,232	-	-	
Total Net Position	\$ 3,591,961	\$ 3,692,421	\$ 186,344	

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

NELSON COUNTY
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Contributions	Primary Governmental	Component Unit	
					Activities	Water Resource Board	Job Development Authority
Primary Government							
Governmental Activities							
General Government	\$ 1,845,679	\$ 53,916	\$ 151,310	\$ -	\$ (1,640,453)	\$ -	\$ -
Public Safety	472,763	99,285	9,150	-	(364,328)	-	-
Highways	1,582,320	464,740	766,632	1,581,107	1,230,159	-	-
Health and Welfare	488,836	3,027	125,322	-	(360,487)	-	-
Culture and Recreation	262,781	131,754	173,495	-	42,468	-	-
Conser. of Natural Resources	174,858	10,576	25,048	-	(139,234)	-	-
Emergencies	-	-	22,758	-	22,758	-	-
Total Primary Government	\$ 4,827,237	\$ 763,298	\$ 1,273,715	\$ 1,581,107	\$ (1,209,117)	\$ -	\$ -
Component Units							
Water Resource Board	\$ 409,724	\$ 19,968	\$ 28,791	\$ -	\$ -	\$ (360,965)	\$ -
Job Development Authority	41,773	1,033	-	-	-	-	(40,740)
General Revenues							
Property Taxes					\$ 2,324,447	\$ 335,920	\$ 97,607
Unrestricted State Shared Revenue					486,963	-	399
Earnings on investments					8,210	259	47
Miscellaneous revenue					26,604	4,166	-
Total General Revenues					\$ 2,846,224	\$ 340,345	\$ 98,053
Change in Net Position					\$ 1,637,107	\$ (20,620)	\$ 57,313.00
Net Position - January 1					\$ 2,067,823	\$ 3,713,041	\$ -
Prior period adjustments					\$ (112,969)	\$ -	\$ 129,031
Net position - beginning - restated					\$ 1,954,854	\$ 3,713,041	\$ 129,031
Net Position - December 31					\$ 3,591,961	\$ 3,692,421	\$ 186,344

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

NELSON COUNTY

Balance Sheet – Governmental Funds

December 31, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 508,402	\$ 1,190,564	\$ 1,698,966
Road Receivable	-	206,465	206,465
Taxes Receivable	40,597	31,132	71,729
Intergovernmental Receivable	212,388	63,719	276,107
Total Assets	<u>\$ 761,387</u>	<u>\$ 1,491,880</u>	<u>\$ 2,253,267</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 20,630	\$ 26,201	\$ 46,831
Salaries Payable	603	23,237	23,840
Total Liabilities	<u>\$ 21,233</u>	<u>\$ 49,438</u>	<u>\$ 70,671</u>
Deferred Inflows of Resources			
Road Receivable	\$ -	\$ 206,465	\$ 206,465
Taxes Receivable	40,597	31,132	71,729
Total Deferred Inflows of Resources	<u>\$ 40,597</u>	<u>\$ 237,597</u>	<u>\$ 278,194</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 61,830</u>	<u>\$ 287,035</u>	<u>\$ 348,865</u>
Fund Balances			
Restricted			
Public Safety	\$ -	\$ 51,149	\$ 51,149
Highways	-	715,939	715,939
Flood Control	-	16,669	16,669
Health and Welfare	-	97,971	97,971
Conservation of Natural Resources	-	104,743	104,743
Emergencies	-	163,431	163,431
General Government	-	54,943	54,943
Unassigned	699,557	-	699,557
Total Fund Balances	<u>\$ 699,557</u>	<u>\$ 1,204,845</u>	<u>\$ 1,904,402</u>
Total Liabilities and Fund Balances	<u>\$ 761,387</u>	<u>\$ 1,491,880</u>	<u>\$ 2,253,267</u>

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

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

Total Fund Balances for Governmental Funds			\$ 1,904,402
Total <i>net position</i> 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.			2,909,354
Property taxes and road receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.			
Property Taxes Receivable	\$	71,729	
Road Department Accounts Receivable		<u>206,465</u>	278,194
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.			
Deferred Outflows Related to Pensions & OPEB	\$	1,139,757	
Deferred Inflows Related to Pensions & OPEB		<u>(96,015)</u>	1,043,742
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.			
Net Pension Liability	\$	(2,464,136)	
Compensated Absences		<u>(79,595)</u>	<u>(2,543,731)</u>
Total Net Position of Governmental Activities			<u>\$ 3,591,961</u>

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

NELSON COUNTY

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

	General	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 1,302,976	\$ 1,017,731	\$ 2,320,707
Intergovernmental	667,129	1,093,551	1,760,680
Charges for Services	284,955	312,018	596,973
Interest Income	8,210	-	8,210
Miscellaneous	23,435	3,166	26,601
Total Revenues	<u>\$ 2,286,705</u>	<u>\$ 2,426,466</u>	<u>\$ 4,713,171</u>
EXPENDITURES			
Current			
General Government	\$ 1,763,897	\$ 200	\$ 1,764,097
Public Safety	360,696	119,239	479,935
Highways	-	1,647,819	1,647,819
Health and Welfare	-	451,458	451,458
Culture and Recreation	167,429	57,807	225,236
Conserv. of Natural Resources	-	171,244	171,244
Total Expenditures	<u>\$ 2,292,022</u>	<u>\$ 2,447,767</u>	<u>\$ 4,739,789</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (5,317)</u>	<u>\$ (21,301)</u>	<u>\$ (26,618)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 11,366	\$ 10,465	\$ 21,831
Transfers Out	(10,465)	(11,366)	(21,831)
Total Other Financing Sources and Uses	<u>\$ 901</u>	<u>\$ (901)</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ (4,416)</u>	<u>\$ (22,202)</u>	<u>\$ (26,618)</u>
Fund Balance - January 1	<u>\$ 703,973</u>	<u>\$ 1,227,361</u>	<u>\$ 1,931,334</u>
Prior Period Adjustment	<u>\$ -</u>	<u>\$ (314)</u>	<u>\$ (314)</u>
Fund Balance - January 1 - Restated	<u>\$ 703,973</u>	<u>\$ 1,227,047</u>	<u>\$ 1,931,020</u>
Fund Balance - December 31	<u>\$ 699,557</u>	<u>\$ 1,204,845</u>	<u>\$ 1,904,402</u>

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

NELSON COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2017

Net Change in *Fund Balances* - Total Governmental Funds \$ (26,618)

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 amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	\$ 1,671,650	
Current Year Depreciation Expense	<u>(217,176)</u>	1,454,474

In the statement of activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements do not recognize losses on disposal of capital assets. (13,209)

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

Increase in Net Pension & OPEB Liability	\$ (1,007,564)	
Increase in Deferred Outflows of Resources	781,634	
Decrease in Deferred Inflows of Resources	<u>15,636</u>	(210,294)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Decrease in Compensated Absences Payable	\$ 9,162	
Decrease in Retainage Payable	<u>253,526</u>	262,688

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable and decrease road receivables.

Increase in Taxes Receivable	\$ 3,740	
Increase in Road Receivable	<u>166,326</u>	<u>170,066</u>

Change in Net Position of Governmental Activities \$ 1,637,107

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

NELSON COUNTY

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Investments	<u>\$ 1,756,284</u>	<u>\$ 1,588,355</u>
LIABILITIES		
Due to Other Governments	<u>\$ 1,756,284</u>	<u>\$ 1,588,355</u>

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

NELSON COUNTY

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Component Units

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

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

Nelson County Job Development Authority - The County's governing board appoints a voting majority of the members of the job development authority's board. The County has the authority to approve or modify the job development authority's operational and capital budgets. The County also must approve the tax levy established by the job development authority.

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

Basis of Presentation

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

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

NELSON COUNTY

Notes to the Financial Statements – Continued

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.

The County reports the following major governmental funds:

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

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

Additionally, the County reports the following fund type:

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Cash, Cash Equivalents and Investments

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

NELSON COUNTY

Notes to the Financial Statements – Continued

Capital Assets

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

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

Assets	Years
Buildings	40 – 75
Machinery & Equipment	5 – 15
Infrastructure	40
Vehicles	3 – 7
Office Equipment	3 - 5

Compensated Absences

Vacation leave is earned at the rate of 12 to 24 days per year depending on years of service; up to 30 days. Upon termination vacation benefits that have accrued through the last day of work will be paid; maximum of 30 days. Employees accrue sick leave benefits at the rate of 1 day per month, up to 60 days. Sick leave benefits for Social Service employees are allowed to accumulate an unlimited amount. Once an employee has reached their maximum accrued sick leave level, they are eligible to trade any additional sick leave awarded that year, at a rate of one day of vacation for six days of sick leave. Upon termination sick leave benefits that have accrued through the last day of work will be paid out at a rate of 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.

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

Pension

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

Other Post-Employment Benefits (OPEB)

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

NELSON COUNTY

Notes to the Financial Statements – Continued

Fund Balances

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

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

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

Net Position

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

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

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

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

Interfund Transactions

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

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

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

NOTE 2: PRIOR PERIOD ADJUSTMENTS

Governmental Activities

Change in Accounting Principle – GASB 75 - OPEB:

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

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

Prior Period Errors

Beginning net position and fund balance adjustments were necessary for reclassifying the Nelson County Job Development Authority activity in the County’s ledger as an agency fund instead of a special revenue fund.

NELSON COUNTY

Notes to the Financial Statements – Continued

Adjustments to beginning net position are as follows:

Governmental Activities	Amounts
Beginning Net Position, as previously reported	\$ 2,067,823
Adjustments to restate the January 1, 2017 Net Position	
OPEB PPA	(109,766)
Reclass Job Development Fund - MAB Balance	(314)
Reclass Job Development Fund - Taxes Recievable	(2,889)
Net Position January 1, as restated	\$ 1,954,854

Adjustments to beginning fund balances are as follows:

Fund Balances	Amounts
Beginning Special Revenue Fund Balance, as previously reported	\$ 1,227,361
Adjustments to restate the January 1, 2017 Special Revenue Fund Balance	
Reclass Job Development Fund - MAB Balance	(314)
Net Position January 1, as restated	\$ 1,227,047

Nelson County Job Development Authority**Prior Period Errors**

The Nelson County Job Development Authority was identified as a component unit. Beginning net position adjustments were necessary to correct the prior period error as follows:

Adjustments to beginning net position are as follows:

Job Development Authority	Amounts
Beginning Net Position, as previously reported	\$ -
Adjustments to restate the January 1, 2017 Net Position	
Reclass Job Development Fund - Cash	52,297
Voided Check PPA - Cash	7,500
Reclass Job Development Fund - Loan Receivable	66,344
Reclass Job Development Fund - Taxes Recievable	2,890
Net Position January 1, as restated	\$ 129,031

NOTE 3: DEPOSITS**Custodial Credit Risk**

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

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

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

NELSON COUNTY

Notes to the Financial Statements – Continued

of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2018, the County's carrying amount of deposits totaled \$3,701,192, and the bank balances totaled \$3,346,900. Of the bank balances, \$1,367,184 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, the Nelson County Water Resource District's carrying amount of deposits totaled \$143,675, and the bank balances totaled \$154,100. All of the bank balances were covered by Federal Depository Insurance.

At year ended December 31, 2018, the Nelson County Job Development Authority's carrying amount of deposits totaled \$137,499, and the bank balances totaled \$137,558. All of the bank balances were covered by Federal Depository Insurance.

At year ended December 31, 2017, the County's carrying amount of deposits totaled \$3,287,321, and the bank balances totaled \$3,161,357. Of the bank balances, \$1,164,874 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2017, the Nelson County Water Resource District's carrying amount of deposits totaled \$168,424, and the bank balances totaled \$178,365. All of the bank balances were covered by Federal Depository Insurance.

At year ended December 31, 2017, the Nelson County Job Development Authority's carrying amount of deposits totaled \$125,995, and the bank balances totaled \$126,045. All of the bank balances were covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk

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

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

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

NOTE 4: PROPERTY TAXES

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

NELSON COUNTY

Notes to the Financial Statements – Continued

NOTE 5: JOB DEVELOPMENT AUTHORITY LOANS RECEIVABLE

The Job Development Authority provides loans to businesses for either startup costs or expansion costs. The Development Authority receives applications from various businesses within the community and either approves or denies the applications based on majority board decision. The Job Development Authority had the following activity in loans outstanding for the years ended December 31, 2018 and 2017:

2018	Balance January 1	New Loans/ Additions	Write Offs	Principal Payments	Balance December 31
Loans Receivable Total	\$ 57,308	\$ 30,000	\$ 4,000	\$ 13,546	\$ 69,762

2017	Balance January 1	New Loans/ Additions	Write Offs	Principal Payments	Balance December 31
Loans Receivable Total	\$ 66,344	\$ 747	\$ -	\$ 9,783	\$ 57,308

NOTE 6: CAPITAL ASSETS**Primary Government**

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

Primary Government - 2018	Balance January 1	Increases	Decreases	Balance December 31
Capital Assets Not Being Depreciated				
Land	\$ 15,580	\$ -	\$ -	\$ 15,580
Capital Assets, Being Depreciated				
Buildings	\$ 1,709,557	\$ -	\$ -	\$ 1,709,557
Equipment	1,317,063	-	-	1,317,063
Vehicles	718,776	30,526	-	749,302
Infrastructure	1,581,107	-	-	1,581,107
Total Capital Assets, Being Depreciated	\$ 5,326,503	\$ 30,526	\$ -	\$ 5,357,029
Less Accumulated Depreciation				
Buildings	\$ 815,851	\$ 48,192	\$ -	\$ 864,043
Equipment	1,114,353	57,412	-	1,171,765
Vehicles	462,997	79,676	-	542,673
Infrastructure	39,528	39,528	-	79,056
Total Accumulated Depreciation	\$ 2,432,729	\$ 224,808	\$ -	\$ 2,657,537
Total Capital Assets Being Depreciated, Net	\$ 2,893,774	\$ (194,282)	\$ -	\$ 2,699,492
Capital Assets - Net	\$ 2,909,354	\$ (194,282)	\$ -	\$ 2,715,072

NELSON COUNTY

Notes to the Financial Statements – Continued

Primary Government - 2017	Balance January 1	Increases	Decreases	Transfers	Balance December 31
Capital Assets Not Being Depreciated					
Land	\$ 15,580	\$ -	\$ -	\$ -	\$ 15,580
Capital Assets, Being Depreciated					
Buildings	\$ 1,709,557	\$ -	\$ -	\$ -	\$ 1,709,557
Equipment	1,291,573	42,001	16,511	-	1,317,063
Vehicles	711,879	48,542	41,645	-	718,776
Infrastructure	-	1,581,107	-	-	1,581,107
Total Capital Assets, Being Depreciated	\$ 3,713,009	\$ 1,671,650	\$ 58,156	\$ -	\$ 5,326,503
Less Accumulated Depreciation					
Buildings	\$ 767,660	\$ 48,191	\$ -	\$ -	\$ 815,851
Equipment	1,060,243	57,412	3,302	-	1,114,353
Vehicles	432,597	72,045	41,645	-	462,997
Infrastructure	-	39,528	-	-	39,528
Total Accumulated Depreciation	\$ 2,260,500	\$ 217,176	\$ 44,947	\$ -	\$ 2,432,729
Total Capital Assets Being Depreciated, Net	\$ 1,452,509	\$ 1,454,474	\$ 13,209	\$ -	\$ 2,893,774
Capital Assets - Net	\$ 1,468,089	\$ 1,454,474	\$ 13,209	\$ -	\$ 2,909,354

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

Primary Government	2018	2017
General Government	\$ 8,301	\$ 8,301
Public Safety	22,915	15,283
Highways	148,378	148,378
Health and Welfare	4,702	4,702
Culture and Recreation	36,898	36,898
Conservation of Natural Resources	3,614	3,614
Total Depreciation Expense	\$ 224,808	\$ 217,176

Discretely Presented Component Unit

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

Water Resource District - 2018	Balance January 1	Increases	Decreases	Balance December 31
Capital Assets, Being Depreciated				
Infrastructure	\$ 4,657,582	\$ -	\$ -	\$ 4,657,582
Equipment	86,950	-	-	86,950
Total Capital Assets, Being Depreciated	\$ 4,744,532	\$ -	\$ -	\$ 4,744,532
Less Accumulated Depreciation				
Infrastructure	\$ 116,440	\$ 116,440	\$ -	\$ 232,880
Equipment	14,767	4,347	-	19,114
Total Accumulated Depreciation	\$ 131,207	\$ 120,787	\$ -	\$ 251,994
Total Capital Assets Being Depreciated, Net	\$ 4,613,325	\$ (120,787)	\$ -	\$ 4,492,538
Capital Assets - Net	\$ 4,613,325	\$ (120,787)	\$ -	\$ 4,492,538

NELSON COUNTY

Notes to the Financial Statements – Continued

Water Resource District - 2017	Balance January 1	Increases	Decreases	Transfers	Balance December 31
Capital Assets Not Being Depreciated Construction in Progress	\$ 4,505,366	\$ 152,216	\$ -	\$ (4,657,582)	\$ -
Capital Assets, Being Depreciated Infrastructure	\$ -	\$ -	\$ -	\$ 4,657,582	\$ 4,657,582
Equipment	86,950	-	-	-	86,950
Total Capital Assets, Being Depreciated	\$ 86,950	\$ -	\$ -	\$ 4,657,582	\$ 4,744,532
Less Accumulated Depreciation Infrastructure	\$ -	\$ 116,440	\$ -	\$ -	\$ 116,440
Equipment	10,420	4,347	-	-	14,767
Total Accumulated Depreciation	\$ 10,420	\$ 120,787	\$ -	\$ -	\$ 131,207
Total Capital Assets Being Depreciated, Net	\$ 76,530	\$ (120,787)	\$ -	\$ 4,657,582	\$ 4,613,325
Capital Assets - Net	\$ 4,581,896	\$ 31,429	\$ -	\$ -	\$ 4,613,325

Depreciation expense was charged to the conservation of natural resources function.

NOTE 7: LONG-TERM LIABILITIES

Primary Government

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

Primary Government - 2018	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 79,595	\$ 5,415	\$ -	\$ 85,010	\$ 34,004
Net Pension and OPEB Liability	2,464,136	190,398	-	2,654,534	-
Total Primary Government	\$ 2,543,731	\$ 195,813	\$ -	\$ 2,739,544	\$ 34,004

Primary Government - 2017	Balance Restated January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 88,757	\$ -	\$ 9,162	\$ 79,595	\$ 31,838
Net Pension and OPEB Liability	1,456,572	1,007,564	-	2,464,136	-
Total Primary Government	\$ 1,545,329	\$1,007,564	\$ 9,162	\$ 2,543,731	\$ 31,838

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

Discretely Presented Component Unit

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

Water Resource District - 2018	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Long-Term Debt					
Warrants Payable	\$ 115,000	\$ -	\$ 32,500	\$ 82,500	\$ 32,500
Loans Payable	-	30,000	-	30,000	30,000
Bonds Payable	935,000	-	55,000	880,000	55,000
Total Long-Term Debt	\$ 1,050,000	\$ 30,000	\$ 87,500	\$ 992,500	\$ 117,500

NELSON COUNTY

Notes to the Financial Statements – Continued

Water Resource District - 2017	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Long-Term Debt					
Warrants Payable	\$ 147,500	\$ -	\$ 32,500	\$ 115,000	\$ 32,500
Bonds Payable	990,000	-	55,000	935,000	55,000
Total Long-Term Debt	\$ 1,137,500	\$ -	\$ 87,500	\$ 1,050,000	\$ 87,500

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

Water Resource District - 2018						
Year Ending December 31	Warrants Payable		Loans Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 32,500	\$ 2,435	\$ 30,000	\$ 734	\$ 55,000	\$ 28,050
2020	12,500	1,504	-	-	55,000	26,950
2021	12,500	1,125	-	-	55,000	25,712
2022	12,500	750	-	-	55,000	24,338
2023	12,500	309	-	-	55,000	22,962
2024-2028	-	-	-	-	275,000	87,038
2029-2033	-	-	-	-	275,000	36,094
2034-2038	-	-	-	-	55,000	1,031
Total	\$ 82,500	\$ 6,123	\$ 30,000	\$ 734	\$ 880,000	\$ 252,175

NOTE 8: OPERATING LEASES

The County is engaged in various operating leases Total lease payments made during 2018 and 2017 totaled \$129,577 and \$129,577 respectively. Future lease payments are as follows:

	Operating Leases
2019	931,958
2020	16,106
Total	\$ 948,064

NOTE 9: PENSION PLAN

General Information about the NDPERS Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The

NELSON COUNTY

Notes to the Financial Statements – Continued

monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

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

	Net Pension Liability
Primary Government - 2018	\$ 2,543,109
Primary Government - 2017	2,354,784

The net pension liability was measured as of June 30, 2018 and 2017 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net

NELSON COUNTY

Notes to the Financial Statements – Continued

pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018 and 2017, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 and 2018 Measurement	Pension Expense
County - 2018	0.150693%	0.004190%	\$ 429,900
County - 2017	0.146503%	0.008312%	361,468

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

Primary Government - 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 6,731	\$ 86,522
Changes in Assumptions	918,009	36,298
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	12,372
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	70,436	16,055
Contributions - Employer	54,910	-
Total	\$ 1,050,086	\$ 151,247

Primary Government - 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 13,997	\$ 11,473
Changes in Assumptions	965,620	53,111
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	31,670	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	56,571	24,164
Contributions - Employer	52,846	-
Total	\$ 1,120,704	\$ 88,748

\$54,910 was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

	County
2019	\$ 272,106
2020	238,396
2021	207,107
2022	117,235
2023	9,085
Thereafter	-

NELSON COUNTY

Notes to the Financial Statements – Continued

Actuarial Assumptions

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

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

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

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

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

Discount Rate

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

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

NELSON COUNTY

Notes to the Financial Statements – Continued

The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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

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

Proportionate Share of the Net Pension Liability	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
County - 2018	\$ 3,455,612	\$ 2,543,109	\$ 1,781,654

Pension Plan Fiduciary Net Position

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

NOTE 10: OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

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

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

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

OPEB Benefits

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

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

NELSON COUNTY

Notes to the Financial Statements – Continued

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

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

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

	Net OPEB Liability
Primary Government - 2018	\$ 111,425
Primary Government - 2017	109,352

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

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 and 2018 Measurement	Pension Expense
County - 2018	0.14148000%	0.0032370%	\$ 13,881
County - 2017	0.13824300%	0.1382430%	13,108

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

County - 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 3,335	\$ 2,302
Changes of Assumptions	9,143	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	2,397
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,164	392
Contributions - Employer	8,792	-
Total	\$ 22,434	\$ 5,091

County - 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 2,667
Changes of Assumptions	10,591	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	4,135
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	465
Contributions - Employer	8,461	-
Total	\$ 19,052	\$ 7,267

NELSON COUNTY

Notes to the Financial Statements – Continued

\$8,792 was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

2019	\$	1,048
2020		1,048
2021		1,048
2022		2,105
2023		1,911
2024		1,180
Thereafter		211

Actuarial assumptions

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

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

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

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

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

Discount rate

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

NELSON COUNTY

Notes to the Financial Statements – Continued

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

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

Proportionate Share of the OPEB Liability	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
County - 2018	\$ 140,979	\$ 111,425	\$ 86,089

NOTE 11: TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the County accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 12: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. For the County the coverage by NDIRF is limited to losses of five million dollars per occurrence for general liability, five million for automobile, and \$2,382,581 for public assets/mobile equipment and portable property.

The County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 13: JOINT VENTURES

Red River Valley Joint Water Resource Board

Under authorization of state statutes, the Water Resource District joined Southeast Cass Water Resource District, North Cass Water Resource District, Maple River Water Resource District, Rush River Water Resource District, and the water resource districts of Richland County, Pembina County, Traill County, Steele County, Walsh County, Nelson County, Ransom County, and Sargent County to establish and operate a joint exercise of powers agreement for the water management districts located within the Red River Valley. Each government appoints one member of the board of directors for the joint venture. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined as no provision is made for this in the joint venture agreement and each government's contribution each year depends on where Red River Joint Water Resource Board projects are being undertaken.

NELSON COUNTY

Notes to the Financial Statements – Continued

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2018.

Total Assets	\$	11,751,624
Total Liabilities		48,695
Net Position	\$	11,702,929
Total Revenues	\$	2,421,328
Total Expenses		784,919
Change in Net Position	\$	1,636,409

Complete financial statements for the Red River Joint Water Resource District may be obtained from the Treasurer's office at Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

Devils Lake Basin Joint Water Resource Board

Under authorization of state statues, the Ramsey County Water Resource District joined Benson County, Cavalier County, Nelson County, Pierce County, Rolette County, Towner County, and Walsh County to establish and operate a joint exercise of powers agreement for water management districts located within the Devils Lake basin. Known as the Devils Lake Basin Joint Water Resource Board, the agreement was established for the mutual advantage of the governments. One member of the directors for the joint venture is appointed by each government. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined due to lack of provisions being made for this in the joint powers agreement.

The following is summary financial information for the joint venture as of December 31, 2012, which is the most current audited information.

	Devils Lake Basin Joint WRD	
Total Assets & Def. Outflows	\$	203,175
Total Liabilities & Def. Inflows		-
Total Net Position	\$	203,175
Total Revenues	\$	133,439
Total Expenses		169,563
Change in Net Position	\$	(36,124)

Complete financial statements can be obtained by writing: Devils Lake Basin Joint Water Resource Board, 524 4th Avenue NE, #27, Devils Lake, ND 58301.

NELSON COUNTY

Notes to the Financial Statements – Continued

Nelson – Griggs District Health Unit

Nelson County entered into a joint venture with Griggs County for the operation of the Nelson - Griggs District Health Unit. Each participating county's share of the cost operations and board member appointments is determined by the relative population of each county.

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2015, which is the most current audited information available:

	Nelson-Griggs District Health Unit
Total Assets	\$ 421,064
Total Liabilities	-
Total Net Position	\$ 421,064
Revenues	\$ 758,794
Expenses	546,162
Change in Net Position	\$ 212,632

Complete financial statement can be obtained by writing: Nelson – Griggs District Health Unit, PO Box 365, McVillie, ND 58254.

NELSON COUNTY

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

	2018				2017			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES								
Taxes	\$ 1,301,000	\$ 1,301,000	\$ 1,295,649	\$ (5,351)	\$ 1,301,000	\$ 1,301,000	\$ 1,302,976	\$ 1,976
Intergovernmental	625,735	625,735	648,917	23,182	692,630	692,630	667,129	(25,501)
Charges for Services	276,502	276,502	295,666	19,164	256,792	256,792	284,955	28,163
Interest Income	6,500	6,500	11,688	5,188	6,000	6,000	8,210	2,210
Miscellaneous	53,095	53,095	28,201	(24,894)	28,400	28,400	23,436	(4,964)
Total Revenues	\$ 2,262,832	\$ 2,262,832	\$ 2,280,121	\$ 17,289	\$ 2,284,822	\$ 2,284,822	\$ 2,286,706	\$ 1,884
EXPENDITURES								
Current								
General Government	\$ 1,912,996	\$ 1,912,996	\$ 1,779,620	\$ 133,376	\$ 1,864,156	1,830,793	\$ 1,763,898	\$ 66,895
Public Safety	386,614	413,127	366,994	46,133	370,286	404,986	360,696	44,290
Culture & Recreation	196,515	196,515	130,150	66,365	183,900	168,400	167,429	971
Total Expenditures	\$ 2,496,125	\$ 2,522,638	\$ 2,276,764	\$ 245,874	\$ 2,418,342	\$ 2,404,179	\$ 2,292,023	\$ 112,156
Excess (Deficiency) of Revenues Over Expenditures	\$ (233,293)	\$ (259,806)	\$ 3,357	\$ 263,163	\$ (133,520)	\$ (119,357)	\$ (5,317)	\$ 114,040
OTHER FINANCING SOURCES (USES)								
Transfers In	\$ 9,829	\$ 9,829	\$ -	\$ (9,829)	\$ -	\$ -	\$ 11,366	\$ 11,366
Transfers Out	-	-	(1,000)	(1,000)	-	-	(10,465)	(10,465)
Total Other Financing Sources and Uses	\$ 9,829	\$ 9,829	\$ (1,000)	\$ (10,829)	\$ -	\$ -	\$ 901	\$ 901
Net Change in Fund Balances	\$ (223,464)	\$ (249,977)	\$ 2,357	\$ 252,334	\$ (133,520)	\$ (119,357)	\$ (4,416)	\$ 114,941
Fund Balance - January 1	\$ 699,557	\$ 699,557	\$ 699,557	\$ -	\$ 703,973	\$ 703,973	\$ 703,973	\$ -
Fund Balance - December 31	\$ 476,093	\$ 449,580	\$ 701,914	\$ 252,334	\$ 570,453	\$ 584,616	\$ 699,557	\$ 114,941

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

NELSON COUNTY

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

	2018				2017			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES								
Taxes	\$ 598,600	\$ 598,600	\$ 694,442	\$ 95,842	\$ 598,845	\$ 598,845	\$ 1,017,731	\$ 418,886
Intergovernmental	918,740	918,740	1,269,463	350,723	1,159,635	1,159,635	1,093,551	(66,084)
Charges for Services	317,300	317,300	501,341	184,041	318,720	318,720	312,018	(6,702)
Miscellaneous	5,000	5,000	4,286	(714)	10,000	10,000	3,166	(6,834)
Total Revenues	\$ 1,839,640	\$ 1,839,640	\$ 2,469,532	\$ 629,892	\$ 2,087,200	\$ 2,087,200	\$ 2,426,466	\$ 339,266
EXPENDITURES								
Current								
General Government	\$ -	\$ -	\$ 200	\$ (200)	\$ -	\$ -	\$ 200	\$ (200)
Public Safety	60,260	86,773	104,493	(17,720)	70,000	105,500	119,239	(13,739)
Highways & Bridges	1,493,000	1,493,000	1,467,516	25,484	1,998,350	1,998,350	1,647,819	350,531
Health & Welfare	529,944	529,944	487,169	42,775	472,397	472,817	451,458	21,359
Culture & Recreation	-	-	-	-	45,393	57,813	57,807	6
Conservation of Natural Resources	183,640	183,640	167,083	16,557	188,065	188,065	171,244	16,821
Economic Development	-	-	44,843	(44,843)	-	-	-	-
Emergency	-	-	67,881	(67,881)	-	-	-	-
Total Expenditures	\$ 2,266,844	\$ 2,293,357	\$ 2,339,185	\$ (45,828)	\$ 2,774,205	\$ 2,822,545	\$ 2,447,767	\$ 374,778
Excess (Deficiency) of Revenues Over Expenditures	\$ (427,204)	\$ (453,717)	\$ 130,347	\$ 675,720	\$ (687,005)	\$ (735,345)	\$ (21,301)	\$ (35,512)
OTHER FINANCING SOURCES (USES)								
Transfers In	\$ 10,000	\$ 10,000	\$ 1,866	\$ (8,134)	\$ 50,000	\$ 50,000	\$ 10,465	\$ (39,535)
Transfers Out	(19,829)	(19,829)	(866)	18,963	(57,362)	(57,362)	(11,366)	45,996
Total Other Financing Sources and Uses	\$ (9,829)	\$ (9,829)	\$ 1,000	\$ 10,829	\$ (7,362)	\$ (7,362)	\$ (901)	\$ 6,461
Net Change in Fund Balances	\$ (437,033)	\$ (463,546)	\$ 131,347	\$ 686,549	\$ (694,367)	\$ (742,707)	\$ (22,202)	\$ (29,051)
Fund Balance - January 1	\$ 1,204,845	\$ 1,204,845	\$ 1,204,845	\$ -	\$ 1,227,361	\$ 1,227,361	\$ 1,227,361	\$ -
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (314)	\$ -
Fund Balance - January 1 - Restated	\$ 1,204,845	\$ 1,204,845	\$ 1,204,845	\$ -	\$ 1,227,361	\$ 1,227,361	\$ 1,227,047	\$ -
Fund Balance - December 31	\$ 767,812	\$ 741,299	\$ 1,336,192	\$ 686,549	\$ 532,994	\$ 484,654	\$ 1,204,845	\$ (29,051)

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

NELSON COUNTY

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

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.150693%	\$ 2,543,109	\$ 1,548,098	164.27%	62.80%
2017	0.146503%	2,354,784	1,495,567	157.45%	61.89%
2016	0.138191%	1,346,806	1,392,642	96.71%	70.46%
2015	0.136437%	927,748	1,215,486	76.33%	77.15%
2014	0.142919%	907,137	1,203,918	75.35%	77.70%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 114,024	\$ 106,394	\$ 7,630	\$ 1,548,098	6.87%
2017	108,447	105,221	3,226	1,495,567	7.04%
2016	99,156	99,156	-	1,392,642	7.12%
2015	86,543	86,543	-	1,215,486	7.12%
2014	85,719	85,719	-	1,203,918	7.12%

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

NELSON COUNTY

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

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

	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.141480%	\$ 111,425	\$ 1,548,098	7.20%	61.89%
2017	0.138243%	\$ 109,352	\$ 1,495,567	7.31%	59.78%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 18,158	\$ 17,035	\$ 1,123	\$ 1,548,098	1.10%
2017	\$ 17,385	\$ 16,847	\$ 538	\$ 1,495,567	1.13%

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

NELSON COUNTY

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

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budget Amendments

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

Fund - 2018	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
Major Funds			
General Fund	\$ 2,496,125	\$ 26,513	\$ 2,522,638
Special Revenue Fund	2,286,673	26,513	2,313,186

Fund - 2017	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
Major Funds			
General Fund	\$ 2,368,679	\$ 35,500	\$ 2,404,179
Special Revenue Fund	2,831,567	48,340	2,879,907

NOTE 3: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

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

NOTE 4: PENSION AND OPEB - CHANGES OF ASSUMPTIONS

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

NELSON COUNTY

Schedule of Fund Activity – Cash Basis For the Year Ended December 31, 2018

Major Funds:	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
<u>General Fund:</u>						
General Fund	\$ 508,402	\$ 2,418,845	\$ -	\$ 1,000	\$ 2,301,891	\$ 624,356
<u>Special Revenue Funds:</u>						
Courthouse Repairs	\$ 54,942	\$ -	\$ -	\$ -	\$ -	\$ 54,942
FEMA	16,669	-	-	-	-	16,669
Road and Bridge	698,284	1,610,667	866	-	1,464,969	844,848
County Emergency	160,628	31,212	-	866	67,881	123,093
Weed Control	48,672	121,651	-	-	106,436	63,887
Hazardous Chemicals	6,128	1,238	-	-	1,187	6,179
Law Enforcement	33,494	58,983	-	-	86,773	5,704
LLE Block Grants	11,902	1,140	-	-	1,620	11,422
Human Services	93,446	519,074	-	-	481,213	131,307
Veteran's Service Officer	12,685	12,361	-	-	12,228	12,818
County Agent	21,925	58,518	1,000	-	58,369	23,074
Homeland Security	-	-	-	-	9,937	(9,937)
Document Preservation	31,788	4,952	-	-	200	36,540
Off Book	-	44,848	-	-	44,843	5
Special Revenue Funds Total	\$ 1,190,563	\$ 2,464,644	\$ 1,866	\$ 866	\$ 2,335,656	\$ 1,320,551
Total Major Funds	\$ 1,698,965	\$ 4,883,489	\$ 1,866	\$ 1,866	\$ 4,637,547	\$ 1,944,908
Total Governmental Funds	\$ 1,698,965	\$ 4,883,489	\$ 1,866	\$ 1,866	\$ 4,637,547	\$ 1,944,908
<u>Agency Funds:</u>						
Historical Society	\$ 20	\$ 6,651	\$ -	\$ -	\$ 6,620	\$ 51
Senior Citizens	81	48,377	-	-	48,255	203
Job Development	324	98,363	-	-	97,909	778
State Taxes	81	24,404	-	-	24,282	203
Extension Agent Trust	462	492	-	-	213	741
Estimated Tax	-	8,650	-	-	8,650	-
Protest Tax	-	20,625	-	-	20,140	485
Prepaid Taxes	1,557,294	1,692,380	-	-	1,557,294	1,692,380
Incident Command Unit	1,422	2,352	-	-	915	2,859
Teachers Retirement	43	-	-	-	(3)	46
Payroll Deductions	3,060	-	-	-	(121)	3,181
Employee Insurance	1,578	235	-	-	51	1,762
Flex Plan	388	60,406	-	-	58,291	2,503
Domestic Violence	70	420	-	-	490	-
Victim Witness Advocate	730	1,125	-	-	536	1,319
Attorney General 24/7	2,945	3,607	-	-	6,324	228
County Library	81	28,282	-	-	28,160	203
Health District	138	41,664	-	-	41,461	341
Soil Conservation District	157	49,807	-	-	49,569	395
Michigan Ambulance	22	46,870	-	-	46,715	177
Lakota Ambulance	127	29,245	-	-	28,896	476
Water Resource District	324	107,741	-	-	107,253	812
Garrison Diversion	81	27,258	-	-	27,136	203
Devils Lake Joint Water District	2,629	8,954	-	-	9,000	2,583
Red River Joint Water District	(1,839)	15,588	-	-	-	13,749
Surveyor Specials	7,229	-	-	-	-	7,229
Total Cities	3,029	537,671	-	-	536,726	3,974
Total School Districts	5,818	1,921,003	-	-	1,911,348	15,473
Total Townships	1,322	567,303	-	-	566,200	2,425
Total Drains	-	215,530	-	-	215,177	353
Total Fire Districts	740	167,592	-	-	167,179	1,153
Total Agency Funds	\$ 1,588,356	\$ 5,732,595	\$ -	\$ -	\$ 5,564,666	\$ 1,756,285
Total Primary Government	\$ 3,287,321	\$ 10,616,083	\$ 1,866	\$ 1,866	\$ 10,202,213	\$ 3,701,192
<u>Component Unit:</u>						
Water Resource District	\$ 168,424	\$ 522,887	\$ -	\$ -	\$ 547,635	\$ 143,676
Job Development Authority	\$ 125,995	\$ 115,083	\$ -	\$ -	\$ 103,579	\$ 137,499
Total Reporting Entity	\$ 3,581,740	\$ 11,254,053	\$ 1,866	\$ 1,866	\$ 10,853,426	\$ 3,982,367

NELSON COUNTY

Schedule of Fund Activity – Cash Basis For the Year Ended December 31, 2017

Major Funds:	Balance 1-1-17	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12-31-17
<u>General Fund:</u>							
General Fund	\$ 628,055	\$ 2,180,235	\$ 11,366		\$ 10,465	\$ 2,300,789	\$ 508,402
<u>Special Revenue Funds:</u>							
Courthouse Repairs	\$ 44,942	\$ -	\$ 10,000		\$ -	\$ -	\$ 54,942
FEMA	16,669	-	-	-	-	-	16,669
Road and Bridge	811,161	1,605,051	-	-	-	1,717,928	698,284
County Emergency	131,731	28,897	-	-	-	-	160,628
Weed Control	55,263	104,205	-	-	335	110,461	48,672
Hazardous Chemicals	5,302	950	-	-	-	124	6,128
Law Enforcement	94,403	49,540	-	-	-	110,449	33,494
LLE Block Grants	11,993	8,201	-	-	-	8,292	11,902
Human Services	112,964	411,171	-	-	-	430,689	93,446
Veteran's Service Officer	8,847	20,117	-	-	3,669	12,610	12,685
County Agent	33,274	54,963	-	-	7,362	58,950	21,925
Park Stabilization Project	(116,153)	173,495	465	-	-	57,807	-
Document Preservation	26,297	5,691	-	-	-	200	31,788
Special Revenue Funds Total	\$ 1,236,693	\$ 2,462,281	\$ 10,465	\$ -	\$ 11,366	\$ 2,507,510	\$ 1,190,563
Total Major Funds	\$ 1,864,748	\$ 4,642,516	\$ 21,831	\$ -	\$ 21,831	\$ 4,808,299	\$ 1,698,966
Total Governmental Funds	\$ 1,864,748	\$ 4,642,516	\$ 21,831	\$ -	\$ 21,831	\$ 4,808,299	\$ 1,698,966
<u>Agency Funds:</u>							
Historical Society	\$ 20	\$ 6,483	\$ -	\$ -	\$ -	\$ 6,483	\$ 20
Senior Citizens	78	47,071	-	-	-	47,068	81
Job Development	314	97,865	-	-	-	97,855	324
State Taxes	79	24,545	-	-	-	24,543	81
Extension Agent Trust	536	418	-	-	-	492	462
Estimated Tax	-	6,457	-	-	-	6,457	-
Protest Tax	-	26,444	-	-	-	26,444	-
Prepaid Taxes	1,141,056	1,557,294	-	-	-	1,141,056	1,557,294
Incident Command Unit	1,143	1,000	-	-	-	721	1,422
Teachers Retirement	41	-	-	-	-	(2)	43
Payroll Deductions	3,104	-	-	-	-	44	3,060
Employee Insurance	319	-	-	-	-	(1,259)	1,578
Flex Plan	4,410	56,724	-	-	-	60,746	388
Domestic Violence	70	280	-	-	-	280	70
Victim Witness Advocate	(170)	900	-	-	-	-	730
Attorney General 24/7	-	3,710	-	-	-	765	2,945
County Library	78	28,777	-	-	-	28,774	81
Health District	140	42,140	-	-	-	42,142	138
Soil Conservation District	151	49,167	-	-	-	49,161	157
Michigan Ambulance	87	47,559	-	-	-	47,624	22
Lakota Ambulance	193	14,877	-	-	-	14,943	127
Water Resource District	314	104,592	-	-	-	104,582	324
Garrison Diversion	78	26,342	-	-	-	26,339	81
Devils Lake Joint Water District	2,732	8,897	-	-	-	9,000	2,629
Red River Joint Water District	(1,970)	20,773	-	-	-	20,642	(1,839)
Surveyor Specials	-	7,229	-	-	-	-	7,229
Total Cities	2,792	529,654	-	-	-	529,417	3,029
Total School Districts	5,686	1,829,424	-	-	-	1,829,292	5,818
Total Townships	1,302	539,572	-	-	-	539,552	1,322
Total Drains	459	231,132	-	-	-	231,591	-
Total Fire Districts	410	161,415	-	-	-	161,086	739
Total Agency Funds	\$ 1,163,452	\$ 5,470,741	\$ -	\$ -	\$ -	\$ 5,045,838	\$ 1,588,355
Total Primary Government	\$ 3,028,200	\$ 10,113,257	\$ 21,831	\$ -	\$ 21,831	\$ 9,854,137	\$ 3,287,321
<u>Component Unit:</u>							
Water Resource District	\$ 296,354	\$ 390,991				\$ 518,921	\$ 168,424
Job Development Authority	\$ 59,797	\$ 108,718				\$ 42,520	\$ 125,995
Total Reporting Entity	\$ 3,384,351	\$ 10,612,966	\$ 21,831	\$ -	\$ 21,831	\$ 10,415,578	\$ 3,581,740

STATE AUDITOR

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FARGO OFFICE
MANAGER – CRAIG HASHBARGER
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Board of County Commissioners
Nelson County
Lakota, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Nelson County as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Nelson County's basic financial statements, and have issued our report thereon dated January 30, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *schedule of audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2018-006 and 2018-007 to be significant deficiencies.

NELSON COUNTY

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

Compliance and Other Matters

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

Nelson County's Response to Findings

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

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
January 30, 2020

NELSON COUNTY

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

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

NELSON COUNTY

Schedule of Audit Findings

For the Year Ended December 31, 2018

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

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

Criteria

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

Cause

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

Effect

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

Repeat Finding

No.

Recommendation

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

Nelson County's Response

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

2018-002 – ADJUSTING JOURNAL ENTRIES

Condition

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

Criteria

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

Cause

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

Effect

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

Repeat Finding

No.

Recommendation

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

Nelson County's Response

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

2018-003 – MISSING COMPONENT UNIT

Condition

The Nelson County Job Development Authority was identified as a discretely presented component unit that had not been included in prior financial statements. Thus, prior period adjustments were required.

Criteria

GASB 61 and GASB 14 provide guidance on identifying component units. GASB 61 amends Paragraph 20 of Statement 14 and states, “Component Units are legally separate organization for which the elected officials or the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading.” GASB 61 further states, “the primary government is financially accountable if it appoints a voting majority of the organization’s governing body and (1) is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.”

Cause

Management did not have controls in place to identify component units and was unaware of GASB 61 and GASB 14.

Effect

Inadequate internal controls over identifying component units affects Nelson County’s ability to detect future component units.

Repeat Finding

No.

Recommendation

We recommend Nelson County design and implement internal controls to identify all component units in accordance with GASB 61 and GASB 14.

Nelson County’s Response

Agree. Nelson County will review GASB 61 and GASB 14 in order to identify all component units.

2018-004 – LACK OF BANK RECONCILIATION – JOB DEVELOPMENT AUTHORITY

Condition

For the years ended December 31, 2017 and 2018, Nelson County Job Development Authority did not prepare monthly bank reconciliations.

Criteria

A proper system of internal controls requires someone to balance their book balance to the bank balance to ensure that the book and bank balances are correct.

Cause

Nelson County Job Development Authority was unaware that bank reconciliations were necessary.

Effect

An adequate check and balance system is not in place to oversee that the bank statements agree to cash on hand (book balance)-reconciliations. Nelson County Job Development Authority is not in compliance with accounting principles generally accepted in the United States of America.

Repeat Finding

No.

Recommendation

We recommend the Nelson County Job Development Authority create a monthly bank reconciliation and balance their book balance to the bank balance to ensure that the bank balances are accurate and appropriate.

Nelson County Job Development Authority's Response

Agree. Going forward, Nelson County Job Development Authority will perform a bank reconciliation in QuickBooks.

2018-005 – VOIDED CHECK ISSUE – JOB DEVELOPMENT AUTHORITY

Condition

A check written in 2016 by the Nelson County Job Development Authority for \$7,500 was found that should have been voided in 2016. Thus, a prior period adjustment needed to be made.

Criteria

According to the Committee of Sponsoring Organizations of the Treadway Commission on proper internal controls, it is management's responsibility to put proper controls in place to provide reasonable assurance of safeguarding assets, complying with management directives and accurate financial reporting. Proper controls surrounding the voided check process are necessary to complete this objective.

Cause

The Job Development Authority does not have adequate controls in place to void checks when the checks will no longer be given to the recipient.

Effect

There is an increased risk of fraud or material misstatement to the Nelson County Job Development Authority's financial statements.

Repeat Finding

No.

Recommendation

We recommend that the Nelson County Job Development Authority void checks on the physical check and in the general ledger when they need to be voided.

Nelson County Job Development Authority's Response

Agree. Going forward, Nelson County Job Development Authority will properly void checks.

2018-006 - FRAUD RISK ASSESSMENT

Condition

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

Criteria

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

Cause

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

Effect

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

Repeat Finding

No.

Recommendation

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

Nelson County's Response

Agree. We will perform a fraud risk assessment.

2018-007 – LACK OF SEGREGATION OF DUTIES – WATER RESOURCE DISTRICT

Condition

The Nelson County Water Resource District has one Secretary/Treasurer responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations.

Criteria

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

Cause

Management has chosen to allocate its economic resources to other functions of the Water Resource District.

Effect

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

Repeat Finding

Yes.

Recommendation

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

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

Nelson County Water Resource District's Response

Agree. The Nelson County Water Resource District agrees and will segregate duties as it becomes feasible.



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203.
FARGO, NORTH DAKOTA 58103

GOVERNANCE COMMUNICATION

Board of County Commissioners
Nelson County
Lakota, North Dakota

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Nelson County, North Dakota, for the years ended December 31, 2018 and 2017 which collectively comprise Nelson County's basic financial statements, and have issued our report thereon dated January 30, 2020. Professional standards require that we provide you with the following information related to our audit.

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

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

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

As part of obtaining reasonable assurance about whether Nelson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

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

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

NELSON COUNTY

Governance Communication – Continued

Corrected and Uncorrected Misstatements

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

2018 Adjustments	Client Provided Adjustments		Audit Adjustments		Total Adjustment	
	Debit	Credit	Debit	Credit	Debit	Credit
Governmental Activities						
Intergovernmental Receivable	-		172,271		172,271	-
Revenue		-		172,271		172,271
Revenue - Remove Interfund Loan Receipt	-		30,000		30,000	
Expenditures - Remove Interfund loan Payment		-		30,000		30,000
Expenditures	79,073		-		79,073	
Salaries Payable		22,969		-		22,969
Accounts Payable		56,104		-		56,104
Water Resource District						
Expenditures	-		23,308		23,308	
Accounts Payable		-		17,839		17,839
Salaries Payable		-		5,469		5,469
Job Development Authority						
Voided Check Cash Adjustment	-		9,000		9,000	
Net Position		-		9,000		9,000
Loan Receivable	12,454		-		12,454	
Change in Loan Receivable - Remove Revenue	13,546		-		13,546	
Change in Loan Receivable - Remove Expenditure		26,000		-		26,000
2017 Adjustments						
2017 Adjustments	Client Provided Adjustments		Audit Adjustments		Total Adjustment	
	Debit	Credit	Debit	Credit	Debit	Credit
Governmental Activities						
Intergovernmental Receivable	-		276,106		276,106	-
Revenue		-		276,106		276,106
Revenue - Remove Interfund Loan Receipt	-		30,000		30,000	
Expenditures - Remove Interfund loan Payment		-		30,000		30,000
Expenditures	70,671		-		70,671	
Salaries Payable		23,840		-		23,840
Accounts Payable		46,831		-		46,831
Water Resource District						
Expenditures	-		19,625		19,625	
Accounts Payable		-		13,824		13,824
Salaries Payable		-		5,801		5,801
Job Development Authority						
Prior Period Adjustment - Cash	-		52,297		52,297	
Prior Period Adjustment - Voided Check Cash Adjustmen	-		7,500		7,500	
Prior Period Adjustment - Loan Receivable	-		66,344		66,344	
Prior Period Adjustment - Taxes Receivable	-		2,890		2,890	
Prior Period Adjustment - Net Position		-		129,031		129,031
Change in Loan Receivable - Remove Revenue	9,783		-		9,783	
Change in Loan Receivable - Remove Expenditure		747		-		747
Loan Receivable		9,036		-		9,036

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 30, 2020.

Management Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

Other Audit Findings or Issues

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

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

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
January 30, 2020

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