



Financial Statements
December 31, 2018
McKenzie County

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Commissioner - Vice Chairman
Commissioner
Commissioner
Commissioner

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



Independent Auditor's Report

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

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

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of McKenzie County, as of December 31, 2018, or the changes in financial position thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota, as of December 31, 2018, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Correction of Error

As discussed in Note 15 to the financial statements, certain errors resulting in misstatements of amounts previously reported for accumulated depreciation, depreciation expense, capital contributions, construction in progress and capital assets as of December 31, 2017, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of January 1, 2018 to correct the errors. Our opinions are not modified with respect to these matters.

Basis of Accounting

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

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2020, on our consideration of McKenzie County, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie County's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
May 29, 2020

McKenzie County
Statement of Net Position – Modified Cash Basis
December 31, 2018

	Primary Governmental Activities	Component Units
Assets		
Cash and investments	\$ 152,472,492	\$ 320,153
Note receivable	3,579,856	-
Capital assets not being depreciated		
Land	4,811,512	-
Construction in progress	47,856,014	-
Capital assets net of accumulated depreciation		
Buildings	66,695,100	-
Furniture and equipment	1,782,398	-
Infrastructure	166,267,741	-
Vehicles and equipment	10,855,009	-
Total capital assets	298,267,774	-
Total assets	\$ 454,320,122	\$ 320,153
Liabilities		
Long-term liabilities		
Due within one year		
Loan payable	\$ 3,955,079	\$ -
Due after one year		
Loan payable	33,390,631	-
Total liabilities	\$ 37,345,710	\$ -
Net Position		
Net investment in capital assets	\$ 260,922,064	\$ -
Restricted for		
Public safety	350,512	-
Highways	1,262,973	-
Health and welfare	348,480	-
Culture and recreation	-	239,827
Conservation of natural resources	-	59,018
Economic development	-	21,308
Unrestricted	154,090,383	-
Total Net Position	\$ 416,974,412	\$ 320,153

McKenzie County
Statement of Activities – Modified Cash Basis
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	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 13,863,585	\$10,393,935	\$ 298,936	\$ -	\$ (3,170,714)	\$ -
Public safety	10,111,949	-	218	-	(10,111,731)	-
Highways	23,087,593	1,465,848	-	10,797,011	(10,824,734)	-
Health and welfare	1,920,599	15,492	70,975	-	(1,834,132)	-
Culture and recreation	395,113	-	70	-	(395,043)	-
Conservation of natural resources	492,176	123,679	55,915	-	(312,582)	-
Economic development	2,550,000	-	-	-	(2,550,000)	-
Other	526,505	-	-	-	(526,505)	-
Interest and other debt service	5,420,078	-	-	-	(5,420,078)	-
Total primary government	<u>\$ 58,367,598</u>	<u>\$11,998,954</u>	<u>\$ 426,114</u>	<u>\$ 10,797,011</u>	<u>(35,145,519)</u>	<u>-</u>
Component units	<u>\$ 658,051</u>	<u>\$ 10,527</u>	<u>\$ 52,140</u>	<u>\$ -</u>	<u>-</u>	<u>(595,384)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					5,371,584	530,456
Other taxes					1,836,346	-
Oil and gas production					78,664,639	-
State aid not restricted to specific program					684,096	13,774
Royalties					9,449,931	-
Earnings on investments					195,406	-
Miscellaneous revenue					9,888,341	5
Total general revenues					<u>106,090,343</u>	<u>544,235</u>
Loss on disposal of assets					<u>(106,550)</u>	<u>-</u>
Change in net position					<u>70,838,274</u>	<u>(51,149)</u>
Net position - January 1, as previously reported					348,785,213	371,302
Restatement (Note 15)					<u>(2,649,075)</u>	<u>-</u>
Net position - January 1, as restated					<u>346,136,138</u>	<u>371,302</u>
Net position - December 31					<u>\$ 416,974,412</u>	<u>\$ 320,153</u>

McKenzie County

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2018

	Major Funds			Total Governmental Funds
	General	County Road and Bridge	Other Governmental Funds	
Assets				
Cash and investments	\$ 87,254,558	\$ 57,456,360	\$ 6,663,019	\$ 151,373,937
Note receivable	3,579,856	-	-	3,579,856
Total assets	\$ 90,834,414	\$ 57,456,360	\$ 6,663,019	\$ 154,953,793
Fund Balances				
Nonspendable	\$ 3,579,856	\$ -	\$ -	\$ 3,579,856
Restricted				
Public safety	-	-	350,512	350,512
Highways	-	-	1,262,973	1,262,973
Health and welfare	-	-	348,480	348,480
Assigned				
General government	1,364,917	-	-	1,364,917
Public safety	230,416	-	121,409	351,825
Highways	-	57,456,360	4,459,873	61,916,233
Culture and recreation	475,121	-	254	475,375
Conservation of Natural resources	-	-	119,518	119,518
Unassigned	85,184,104	-	-	85,184,104
Total fund balances	\$ 90,834,414	\$ 57,456,360	\$ 6,663,019	\$ 154,953,793

Total fund balances for governmental funds		\$ 154,953,793
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 369,316,682	
Less accumulated depreciation	<u>(71,048,908)</u>	298,267,774
Net capital assets		
Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position is:		
		1,098,555
Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.		
		<u>(37,345,710)</u>
Total net position of governmental activities		<u><u>\$ 416,974,412</u></u>

McKenzie County

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash Basis

Year Ended December 31, 2018

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Debt Service		
Revenues					
Taxes	\$ 1,007,926	\$ 2,667,359	\$ -	\$ 1,689,302	\$ 5,364,587
Special assessments	-	6,997	-	-	6,997
Licenses, permits and fees	7,817,124	-	-	-	7,817,124
Intergovernmental	66,922,678	10,992,281	8,402,956	6,090,291	92,408,206
Charges for services	2,576,811	1,465,848	-	139,171	4,181,830
Royalties	9,449,931	-	-	-	9,449,931
Interest income	132,505	59,501	-	3,400	195,406
Miscellaneous	810,383	6,809,335	360,000	1,908,623	9,888,341
Total revenues	<u>88,717,358</u>	<u>22,001,321</u>	<u>8,762,956</u>	<u>9,830,787</u>	<u>129,312,422</u>
Expenditures					
Current					
General government	10,463,354	-	-	-	10,463,354
Public safety	9,626,854	-	-	114,731	9,741,585
Highways	-	15,484,452	-	-	15,484,452
Health and welfare	205,597	-	-	1,686,874	1,892,471
Culture and recreation	287,525	-	-	55,854	343,379
Conservation of natural resources	241,711	-	-	166,383	408,094
Economic development	2,550,000	-	-	-	2,550,000
Other	526,505	-	-	-	526,505
Capital outlay	2,438,087	15,157,466	-	275,987	17,871,540
Debt Service					
Principal	-	-	4,234,671	-	4,234,671
Interest	-	-	5,170,657	-	5,170,657
Total expenditures	<u>26,339,633</u>	<u>30,641,918</u>	<u>9,405,328</u>	<u>2,299,829</u>	<u>68,686,708</u>
Excess (deficiency) of Revenues over Expenditures	<u>62,377,725</u>	<u>(8,640,597)</u>	<u>(642,372)</u>	<u>7,530,958</u>	<u>60,625,714</u>
Other Financing Sources (Uses)					
Sale of assets	13,000	-	-	-	13,000
Proceeds from debt refunding	-	-	35,140,000	-	35,140,000
Premium on debt refunding	-	-	2,205,710	-	2,205,710
Issuance costs	-	-	(249,421)	-	(249,421)
Refunded debt	-	-	(36,453,917)	-	(36,453,917)
Transfers in	860,620	26,185,000	-	-	27,045,620
Transfers out	(22,850,000)	(59,501)	-	(4,136,119)	(27,045,620)
Total other financing sources and (uses)	<u>(21,976,380)</u>	<u>26,125,499</u>	<u>642,372</u>	<u>(4,136,119)</u>	<u>655,372</u>
Net Change in Fund Balances	40,401,345	17,484,902	-	3,394,839	61,281,086
Fund Balance - January 1	<u>50,433,069</u>	<u>39,971,458</u>	<u>-</u>	<u>3,268,180</u>	<u>93,672,707</u>
Fund Balance - December 31	<u>\$ 90,834,414</u>	<u>\$ 57,456,360</u>	<u>\$ -</u>	<u>\$ 6,663,019</u>	<u>\$ 154,953,793</u>

McKenzie County

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

Net change in fund balance - total governmental funds \$ 61,281,086

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the effect of capital outlay, depreciation expense and other capital asset transactions in the current period:

Current year capital outlay	\$ 17,871,540	
Contributed capital	-	
Current year depreciation expense	(11,472,190)	
Loss on disposal of assets	<u>(106,550)</u>	6,292,800

An internal service fund is used by the County to charge the cost of medical claims to individual functions. The net income of the internal service fund is reported with governmental activities (65,490)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to increase net position (13,000)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment principal of long-term debt consumes the current financial resources of the governmental fund. Neither transaction, however, has any effect on net position. 3,342,878

Change in net position of governmental activities \$ 70,838,274

McKenzie County
Statement of Net Position – Proprietary Fund – Modified Cash Basis
December 31, 2018

	<u>Internal Service</u>
Assets	
Current assets	
Cash	<u>\$ 1,098,555</u>
Net Position	
Unrestricted	<u>\$ 1,098,555</u>

McKenzie County

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund – Modified Cash Basis
Year Ended December 31, 2018

	Internal Service
Operating Revenues	
Contributions	\$ 2,959,440
Operating Expenses	
Premiums	1,181,825
Claims	1,711,659
Miscellaneous	141,314
Total operating expenses	3,034,798
Operating Gain	(75,358)
Non-Operating Revenues	
Interest income	9,868
Net Income	(65,490)
Net Position - January 1	1,164,045
Net Position - December 31	\$ 1,098,555

McKenzie County
Statement of Cash Flows – Proprietary Fund – Modified Cash Basis
Year Ended December 31, 2018

	Internal Service
Cash Flows from Operating Activities	
Cash received from customers and users	\$ 2,959,440
Cash paid for health claims	(1,711,659)
Cash paid for services	(1,323,139)
Net Cash from Operating Activities	(75,358)
Cash Flows from Investing Activities	
Interest received	9,868
Net Change in Cash	(65,490)
Cash - January 1	1,164,045
Cash - December 31	\$ 1,098,555

McKenzie County
Statement of Fiduciary Assets and Liabilities – Fiduciary Fund – Modified Cash Basis
December 31, 2018

	<u>Agency Funds</u>
Assets	
Cash and investments	<u>\$ 2,566,722</u>
Liabilities	
Due to other governments	<u>\$ 2,566,722</u>

McKenzie County

Combining Statement of Net Position – Component Units – Modified Cash Basis
December 31, 2018

	<u>Public Library</u>	<u>Atmospheric Resource Board</u>	<u>JDA Development Funds</u>	<u>Total</u>
Assets				
Cash and investments	\$ 239,827	\$ 59,018	\$ 21,308	\$ 320,153
Total assets	<u>\$ 239,827</u>	<u>\$ 59,018</u>	<u>\$ 21,308</u>	<u>\$ 320,153</u>
Net Position				
Restricted for				
Culture and recreation	\$ 239,827	\$ -	\$ -	\$ 239,827
Conservation of natural resources	-	59,018	-	59,018
Economic development	<u>-</u>	<u>-</u>	<u>21,308</u>	<u>21,308</u>
Total net position	<u>\$ 239,827</u>	<u>\$ 59,018</u>	<u>\$ 21,308</u>	<u>\$ 320,153</u>

McKenzie County
Combining Statement of Activities – Component Units – Modified Cash Basis
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	Capital Grants and Contributions	Public Library	Atmospheric Resource Board	JDA Development Funds	Totals
Component units								
Public Library	\$ 509,119	\$ 10,527	\$ 52,140	\$ -	\$ (446,452)	\$ -	\$ -	\$ (446,452)
Job Development Authority	148,932	-	-	-	-	-	(148,932)	(148,932)
Total component units	<u>\$ 658,051</u>	<u>\$ 10,527</u>	<u>\$ 52,140</u>	<u>\$ -</u>	<u>(446,452)</u>	<u>-</u>	<u>(148,932)</u>	<u>(595,384)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					404,512	-	125,944	530,456
State aid not restricted to specific program					-	-	13,774	13,774
Miscellaneous revenue					-	-	5	5
Total general revenues					<u>404,512</u>	<u>-</u>	<u>139,723</u>	<u>544,235</u>
Change in net position					(41,940)	-	(9,209)	(51,149)
Net position - January 1					<u>281,767</u>	<u>59,018</u>	<u>30,517</u>	<u>371,302</u>
Net position - December 31					<u>\$ 239,827</u>	<u>\$ 59,018</u>	<u>\$ 21,308</u>	<u>\$ 320,153</u>

Note 1 - Summary of Significant Accounting Policies

The financial statements of McKenzie County, Watford City, North Dakota, have been prepared in conformity with the modified cash basis of accounting as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

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

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

Component Units

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

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

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

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

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

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

The McKenzie County Water Resource District is also a component unit of the County. For the year ended December 31, 2018, the County has excluded the McKenzie County Water Resource District from the County’s basic financial statements.

Government-wide and Fund Financial Statements

Government-wide Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Fund Financial Statements – The fund financial statements provide information about the County’s funds including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Fund Balance Classification Policies and Procedures

The County classifies governmental fund balances as follows:

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

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

Equity Classifications

Government-wide Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements.

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

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

The County reports the following major governmental funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) 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.

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

Restricted and Unrestricted Resources

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

Cash and Investments

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

The investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

Capital Assets

Primary Government

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential.

General infrastructure assets consist of the road and bridge projects constructed and are reported at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Assets	Years
Buildings	10-40
Furniture and equipment	5-25
Infrastructure	20-50
Vehicles and equipment	5-10

Long-Term Obligations

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

Tax Revenues

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

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

Pensions

For the purposes of measuring net pension liability and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 12, is shown as additional information to the users of the financial statements.

Other Post-Employment Benefits (OPEB)

For the purposes of measuring the net OPEB liability and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net OPEB liability is not reported under the modified cash basis of accounting, but the information disclosed in the OPEB footnote, Note 13, is shown as additional information to the users of the financial statements.

Interfund Transactions

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

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

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

Note 2 - Legal Compliance – Budget

Budget

The County commission adopts an “appropriated budget” on the modified cash basis of accounting. The County auditor prepares an annual budget for the general fund and each special revenue fund of the County. NDCC 11-23-02. The budget includes proposed expenditures and means of financing them. The current budget, except for property taxes, may be amended throughout the year for revenues or appropriations anticipated when the budget was prepared. NDCC 57-15-31.1. Each budget is controlled by the County auditor at the revenue and expenditure function/object level. All appropriations lapse at year-end. When expenditures are in excess of appropriations the County will fund these items through revenues in excess of budget, cash reserves of the fund, or from a cash transfer from other funds.

The County holds public hearings regarding disbursements. All tax levies and all taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04. The County commissioners meet on or before October to determine the amount of taxes that shall be levied for County purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05.

Note 3 - Deposits and Investments

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

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

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

At the year ended December 31, 2018, the pooled bank balances for all County and fiduciary funds was \$157,841,273. The carrying amount of the pooled deposits for the County and fiduciary funds was \$155,039,214 with \$152,472,492 in County funds and \$2,566,722 in fiduciary funds. Of the bank balances, \$1,000,000 was covered by Federal Depository Insurance and National Credit Union Share Insurance. Balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

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

Interest Rate Risk – The County does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates, nor do the fiduciary funds or component units. All investments are certificates of deposit that mature within 1 year.

Credit Risk

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

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

As of December 31, 2018, the County held certificates of deposit in the amount of \$1,600,000, of which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2018, the County held certificates of Deposit with the following maturity dates:

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

Concentration of Credit Risk

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

Note 4 - Note Receivable

On March 6, 2013, the County entered into an agreement to loan the McKenzie County Water Resource District \$4,500,000. The loan was provided in two advances with a first advance of \$3,000,000 and a second advance of \$1,500,000. The note is unsecured and bears interest at 2.5% through February 2018 at which time the interest rate becomes variable equal to the prime rate for loans originated by the Bank of North Dakota less 0.75% not to be less than 0%. As of December 31, 2018, the interest rate has been adjusted to 3.75%. The note matures in February 2033 and is due in annual principal payments ranging from approximately \$175,000 to \$300,000 plus accrued interest. The note receivable balance as of December 31, 2018 was 3,579,856. As noted in Note 1, the McKenzie County Water Resource District, a component unit of the County, has been excluded from the County's basic financial statements.

Note 5 - Capital Assets

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

<u>Governmental Activities</u>	Balance January 1 (as Restated)	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	\$ 4,811,512	\$ -	\$ -	\$ 4,811,512
Construction in progress	46,688,262	15,213,963	14,046,211	47,856,014
Total capital assets, not being depreciated	<u>51,499,774</u>	<u>15,213,963</u>	<u>14,046,211</u>	<u>52,667,526</u>
Capital assets being depreciated				
Buildings	81,161,499	193,232	-	81,354,731
Furniture and equipment	4,043,993	260,012	53,348	4,250,657
Infrastructure	195,750,493	14,569,908	-	210,320,401
Vehicles and equipment	20,293,770	1,964,120	1,534,523	20,723,367
Total capital assets, being depreciated	<u>301,249,755</u>	<u>16,987,272</u>	<u>1,587,871</u>	<u>316,649,156</u>
Less accumulated depreciation for				
Buildings	11,579,597	3,080,034	-	14,659,631
Furniture and equipment	1,965,386	509,542	6,669	2,468,259
Infrastructure	38,428,305	5,624,355	-	44,052,660
Vehicles and equipment	8,788,267	2,258,259	1,178,168	9,868,358
Total accumulated depreciation	<u>60,761,555</u>	<u>11,472,190</u>	<u>1,184,837</u>	<u>71,048,908</u>
Total capital assets being depreciated, net	<u>240,488,200</u>	<u>5,515,082</u>	<u>403,034</u>	<u>245,600,248</u>
Governmental activities - capital assets, net	<u>\$ 291,987,974</u>	<u>\$ 20,729,045</u>	<u>\$ 14,449,245</u>	<u>\$ 298,267,774</u>

The County had commitments of approximately \$67,375,369 outstanding at December 31, 2018 related to construction in progress.

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

<u>Governmental Activities</u>	
General government	\$ 3,334,741
Public safety	370,364
Highways	7,603,141
Health and welfare	28,128
Culture and recreation	51,734
Conservation of natural resources	84,082
Total depreciation expense - governmental activities	<u>\$ 11,472,190</u>

Note 6 - Long-Term Liabilities

Changes in long-term liabilities – During the year ended December 31, 2018, the following changes occurred in liabilities reported as long-term debt:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of Indebtedness, Series 2015	\$ 40,688,588	\$ -	\$ 40,688,588	\$ -	\$ -
Certificate of Indebtedness, Series 2018	-	35,140,000	-	35,140,000	3,710,000
Unamortized debt premium	-	2,205,710	-	2,205,710	245,079
Total	<u>\$ 40,688,588</u>	<u>\$ 37,345,710</u>	<u>\$ 40,688,588</u>	<u>\$ 37,345,710</u>	<u>\$ 3,955,079</u>

Outstanding debt at December 31, 2018 consists of the following:

Certificate of Indebtedness

\$35,140,000 Certificate of Indebtedness, Series 2018 - due in annual installments of \$3,710,000 through August 18, 2027; interest payments only through February 1, 2019, 5.00% interest rate (4.00% at February 1, 2025), liquidated out of the Debt Service Fund

\$ 35,140,000

Debt service requirements on long-term debt at December 31, 2018 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2019	\$ 3,710,000	\$ 1,033,871
2020	3,305,000	1,439,800
2021	3,470,000	1,274,550
2022	3,645,000	1,101,050
2023	3,825,000	918,800
2024-2027	17,185,000	1,794,950
	<u>\$ 35,140,000</u>	<u>\$ 7,563,021</u>

During the year ended December 31, 2018, the County issued \$35,140,000 in State Aid Refunding Certificates of Indebtedness, Series 2018, to refund the State Aid Certificates of Indebtedness, Series 2015. The County has committed revenue sharing appropriations from the State of North Dakota to pay the annual principal and interest requirements on the 2018 certificates. The revenue sharing appropriations in the current year were \$738,629. Certificates are also being repaid with oil and tax revenues as authorized by the County. The certificates bear an interest rate of 4.00 - 5.00% and call for semi-annual interest payments and annual principal payments. Payments commence February 2019 with the final payment in August 2027.

Note 7 - Transfers

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2018:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 860,620	\$ 22,850,000
County Road and Bridge	26,185,000	59,501
Other Governmental Funds	-	4,136,119
	<u> </u>	<u> </u>
Total transfers	<u>\$ 27,045,620</u>	<u>\$ 27,045,620</u>

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

Note 8 - Related Organization

McKenzie County is also responsible for levying a property tax for the Historical Society but the County's accountability for this entity does not extend beyond levying the tax. In 2018, the County remitted \$53,332 to the Historical Society.

Note 9 - Risk Management

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

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. McKenzie County pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$13,997,672 for inland marine coverage as of December 31, 2018.

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

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

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

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

Note 10 - Joint Venture

Upper Missouri District Health Unit

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

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

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

Note 11 - Joint Powers Agreement

McKenzie County Correctional Facility, Law Enforcement Center

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

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

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

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

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

Note 12 - Pension Plan

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

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

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

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

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

Members of the Law Enforcement System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (55) with three or more years of service. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

Upon termination, if a member of the Main System and Law Enforcement is not vested (is not 65 for Main System members, is not 55 for Law Enforcement members, or does not have three years of service), they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

For the Main System, member and employer contributions paid to NDPERS are set by state statute and are a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation for Public Employees Retirement System.

For the Law Enforcement System, member and employer contributions paid to NDPERS are established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

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

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

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

Net Pension Liability

At December 31, 2018, the Employer's proportionate share of the net pension liability was \$13,978,084 and \$2,004,887 for the Main System and the Law Enforcement System, respectively. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System and the Law Enforcement System pension plans relative to the covered payroll of all participating Main System and Law Enforcement employers. At July 1, 2018, the Employer's proportion was 0.828277 percent for the Main System and 8.603100 percent for the Law Enforcement System which was a decrease of 0.161972 percent and increase of 0.736347 percent, respectively, from its proportion measured as of July 1, 2017. The Employer's proportionate share of the net pension liability and any deferred inflows and outflows are not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

Inflation		2.50%
Salary Increases (Payroll Growth)	Years of Service at beginning of Year	
	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 were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%

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).

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

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

	1% Decrease in Discount Rate (5.32%)	Discount Rate (6.32%)	1% Increase in Discount Rate (7.32%)
County's proportionate share of the NDPERS net pension liability			
Main System	\$ 18,993,609	\$ 13,978,078	\$ 9,792,778
Public Safety	3,094,203	2,004,887	1,119,856

Pension Plan Fiduciary Net Position

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

Note 13 - Other Post-Employment Benefits

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

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

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

OPEB Benefits

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

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

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

Net OPEB Liability

At December 31, 2018, the Employer's proportionate share of the net OPEB liability is \$826,201. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At July 1, 2018, the Employer's proportion was 1.049053%, which was a decrease of 0.094536% from its proportion measured as of July 1, 2017.

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

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 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 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Plans as of June 30, 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
County's proportionate share of the NDPERS net OPEB liability	\$ 1,045,342	\$ 826,201	\$ 638,340

Note 14 - Landfill Post Closure Costs

State and federal laws and regulations require the County to place a final cover on its County landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County does not report the closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date under the modified cash basis of accounting. The operating expenses that would have been reported in 2018 if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America were \$264,205. The estimated landfill closure and post closure care liability at December 31, 2018, that would have been reported if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America was \$1,644,793 which is based on the use of approximately 63 percent of the estimated capacity of the landfill and total estimated closure and post closure costs of \$2,590,901. Under the modified cash basis of accounting used, the County will recognize these costs when payments occur. These amounts are based on what it would cost to perform all closure and post closure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

Note 15 - Correction of Error

Certain errors resulting in misstatements of amounts previously reported for accumulated depreciation, depreciation expense, construction in progress and capital assets as of December 31, 2017, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance and net position as of January 1, 2018 to correct the errors. Our opinions are not modified with respect to these matters.

	Governmental Activities
Net Position - January 1, as previously reported	\$ 348,785,213
Restatements	
Understatement of construction in-progress	16,040,596
Overstatement of capital assets (infrastructure)	(18,817,888)
Overstatement of accumulated depreciation/depreciation expense	128,217
Net Position - January 1, as restated	\$ 346,136,138

Note 16 - Subsequent Events

Subsequent to year-end, the County has been negatively impacted by the effects of the world-wide coronavirus pandemic. The County is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the County's financial position is not known.



Supplementary Information
December 31, 2018

McKenzie County

McKenzie County
Budgetary Comparison Schedule – General Fund – Modified Cash Basis
Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 616,649	\$ 616,649	\$ 1,007,926	\$ 391,277
Licenses, permits and fees	1,080,100	1,080,100	7,817,124	6,737,024
Intergovernmental	29,500,000	29,500,000	66,922,678	37,422,678
Charges for services	2,255,000	2,255,000	2,576,811	321,811
Royalties	500,000	500,000	9,449,931	8,949,931
Interest income	100,000	100,000	132,505	32,505
Miscellaneous	425,000	425,000	810,383	385,383
Total revenues	<u>34,476,749</u>	<u>34,476,749</u>	<u>88,717,358</u>	<u>54,240,609</u>
Expenditures				
Current				
General government	13,792,496	13,792,496	10,463,354	3,329,142
Public safety	11,097,829	11,097,829	9,626,854	1,470,975
Health and welfare	-	-	205,597	(205,597)
Culture and recreation	-	-	287,525	(287,525)
Conservation of natural resources	-	-	241,711	(241,711)
Economic development	-	-	2,550,000	(2,550,000)
Other	-	-	526,505	(526,505)
Capital outlay	-	-	2,438,087	(2,438,087)
Total expenditures	<u>24,890,325</u>	<u>24,890,325</u>	<u>26,339,633</u>	<u>(1,449,308)</u>
Excess of Revenues over Expenditures	<u>9,586,424</u>	<u>9,586,424</u>	<u>62,377,725</u>	<u>52,791,301</u>
Other Financing Sources (Uses)				
Sale of assets	-	-	13,000	13,000
Transfers in	-	-	860,620	860,620
Transfers out	<u>(22,000,000)</u>	<u>(22,000,000)</u>	<u>(22,850,000)</u>	<u>(850,000)</u>
Total other financing sources and (uses)	<u>(22,000,000)</u>	<u>(22,000,000)</u>	<u>(21,976,380)</u>	<u>23,620</u>
Net Change in Fund Balances	(12,413,576)	(12,413,576)	40,401,345	52,814,921
Fund Balance - January 1	<u>30,271,934</u>	<u>30,271,934</u>	<u>50,433,069</u>	<u>20,161,135</u>
Fund Balance - December 31	<u>\$ 17,858,358</u>	<u>\$ 17,858,358</u>	<u>\$ 90,834,414</u>	<u>\$ 72,976,056</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis
Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 2,468,252	\$ 2,468,252	\$ 2,667,359	\$ 199,107
Special assessments	8,163	8,163	6,997	(1,166)
Intergovernmental	3,928,134	3,928,134	10,992,281	7,064,147
Charges for services	1,000,000	1,000,000	1,465,848	465,848
Interest income	-	-	59,501	59,501
Miscellaneous	-	-	6,809,335	6,809,335
Total revenues	<u>7,404,549</u>	<u>7,404,549</u>	<u>22,001,321</u>	<u>14,596,772</u>
Expenditures				
Current				
Highways	18,079,832	18,079,832	15,484,452	2,595,380
Capital outlay	38,962,500	38,962,500	15,157,466	23,805,034
Total expenditures	<u>57,042,332</u>	<u>57,042,332</u>	<u>30,641,918</u>	<u>26,400,414</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(49,637,783)</u>	<u>(49,637,783)</u>	<u>(8,640,597)</u>	<u>40,997,186</u>
Other Financing Sources (Uses)				
Transfers in	26,185,000	26,185,000	26,185,000	-
Transfers out	-	-	(59,501)	(59,501)
Total other financing sources and (uses)	<u>26,185,000</u>	<u>26,185,000</u>	<u>26,125,499</u>	<u>(59,501)</u>
Net Change in Fund Balances	(23,452,783)	(23,452,783)	17,484,902	40,937,685
Fund Balance - January 1	<u>16,698,241</u>	<u>16,698,241</u>	<u>39,971,458</u>	<u>23,273,217</u>
Fund Balance - December 31	<u>\$ (6,754,542)</u>	<u>\$ (6,754,542)</u>	<u>\$ 57,456,360</u>	<u>\$ 64,210,902</u>

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

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

Pension Plan	Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Employer's Covered-Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
NDPERS Main System	6/30/2015	0.644316%	\$ 4,381,239	\$ 5,740,070	76.33%	77.15%
NDPERS Main System	6/30/2016	0.816277%	\$ 7,955,415	\$ 8,226,148	96.71%	70.46%
NDPERS Main System	6/30/2017	0.990249%	\$ 15,916,551	\$ 10,108,894	157.45%	61.98%
NDPERS Main System	6/30/2018	0.828277%	\$ 13,978,078	\$ 8,509,036	164.27%	62.80%
NDPERS Law Enforcement	6/30/2015	6.392353%	\$ 388,369	\$ 936,891	41.45%	83.61%
NDPERS Law Enforcement	6/30/2016	6.626608%	\$ 759,307	\$ 1,870,420	40.60%	78.73%
NDPERS Law Enforcement	6/30/2017	7.866753%	\$ 1,731,959	\$ 2,262,925	76.54%	69.86%
NDPERS Law Enforcement	6/30/2018	8.603100%	\$ 2,004,887	\$ 2,969,882	67.51%	71.64%

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Employer's Covered-Payroll (d)	Contributions as a Percentage of Covered-Payroll (a/d)
NDPERS Main System	12/31/2015	\$ 436,005	450,486	\$ (14,481)	\$ 5,740,070	7.85%
NDPERS Main System	12/31/2016	\$ 595,560	572,677	\$ 22,883	\$ 8,226,148	6.96%
NDPERS Main System	12/31/2017	\$ 733,018	616,869	\$ 116,149	\$ 10,108,894	6.10%
NDPERS Main System	12/31/2018	\$ 626,727	670,787	\$ (44,060)	\$ 8,509,036	7.88%
NDPERS Law Enforcement	12/31/2015	\$ 101,186	124,379	\$ (23,193)	\$ 936,891	13.28%
NDPERS Law Enforcement	12/31/2016	\$ 157,985	183,258	\$ (25,273)	\$ 1,870,418	9.80%
NDPERS Law Enforcement	12/31/2017	\$ 236,423	195,008	\$ 41,415	\$ 2,262,925	8.62%
NDPERS Law Enforcement	12/31/2018	\$ 273,201	268,526	\$ 4,675	\$ 2,969,882	9.04%

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

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

Note 2 - Changes of Assumptions

Amounts reported reflect actuarial assumption changes effective July 1, 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.

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

Other Post Employment Benefits Plan	Measurement Date	Employer's Proportion (Percentage) of the Net OPEB Liability	Employer's Proportionate Share (Amount) of the Net OPEB Liability (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
NDRHICF	6/30/2017	1.143589%	\$ 904,591	\$ 12,371,819	7.31%	59.78%
NDRHICF	6/30/2018	1.049053%	\$ 826,201	\$ 11,478,918	7.20%	61.89%

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

Other Post Employment Benefits Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Employer's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (a/d)
NDRHICF	12/31/2017	\$ 143,813	\$ (121,429)	\$ 22,384	\$ 12,371,819	0.98%
NDRHICF	12/31/2018	\$ 134,641	\$ (138,603)	\$ (3,962)	\$ 11,478,918	1.21%

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

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

Note 4 - Changes of Assumptions

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

McKenzie County
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
<u>Direct Program</u>			
Forest Service Schools and Roads Cluster			
School and Roads - Grants to Counties (Bankhead-Jones)	10.666	N/A	<u>\$ 10,253,935</u>
U.S. Department of Interior			
<u>Passed-Through State Treasurer</u>			
Taylor Grazing	15.227		32
Flood Control Act	15.433		5,430,135
Late Disbursement Interest	15.436		215
Mineral Leasing Act (Public Domain Royalties)	15.437		7,691,623
Total U.S. Department of Interior			<u>13,122,005</u>
U.S. Department of Health and Human Services			
<u>Passed-Through State Department of Human Services</u>			
Promoting Safe and Stable Families	93.556	S107	6,438
Temporary Assistance for Needy Families Cluster			
Temporary Assistance for Needy Families	93.558	S114	27,810
Child Care Development Fund Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	S115	163
Stephanie Tubbs Jones Child Welfare Services Program	93.645	S073	514
Foster Care Title IV-E	93.658	S067	14,368
Adoption Assistance	93.659	S070	365
Maternal and Child Health Services Block Grant to the States	93.994	S023	188
Total U.S. Department of Health and Human Services			<u>49,846</u>
U.S. Department of Homeland Security			
<u>Passed-Through State Department of Emergency Services</u>			
Emergency Management Performance Grants	97.042	P0327	6,014
Emergency Management Performance Grants	97.042	P0328	11,049
Subtotal Emergency Management Performance			<u>17,063</u>
Total U.S. Department of Homeland Security			<u>17,063</u>
Total Reporting Entity Expenditures of Federal Awards			<u>\$ 23,442,849</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McKenzie County (the Organization) under programs of the federal government for the year ended December 31, 2018. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of McKenzie County, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of McKenzie County.

Note 2 - Significant Accounting Policies

Expenditures reported in the schedule are reported on the cash basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

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



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

Board of County Commissioners
McKenzie County
Watford City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, Watford City, North Dakota, as of and for the years ended December 31, 2018, and the related notes to the financial statements, which collectively comprise McKenzie County’s basic financial statements, and have issued our report thereon dated May 29, 2020. Our report included an adverse opinion on the aggregate discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered McKenzie County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McKenzie County’s internal control. Accordingly, we do not express an opinion on the effectiveness of McKenzie County’s internal control.

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. *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs listed as items 2018-001, 2018-002, 2018-003, and 2018-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McKenzie County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-005.

McKenzie County's Responses to Findings

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

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
May 29, 2020



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

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on Compliance for Each Major Federal Program

We have audited McKenzie County, Watford City, North Dakota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County’s major federal program for the years ended December 31, 2018. McKenzie County’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, McKenzie County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

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

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

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

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



Bismarck, North Dakota
May 29, 2020

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA number</u>
School and Roads - Grants to Counties (Bankhead-Jones)	10.666
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

**2018-001 Segregation of Duties
Material Weakness**

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

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

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

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

Repeat Finding - Yes

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

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

2018-002 Recording of Transactions
Material Weakness

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

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

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

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

Repeat Finding - Yes

Recommendation – We recommend that all general ledger accounts are reconciled in a timely manner and adjustments made for any differences noted. Also, any adjustments needed to present the financial statements on a modified cash basis should be recorded.

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

**2018-003 Preparation of Financial Statements related Footnotes and Schedule of Federal Expenditures
Material Weakness**

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

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements and schedule of federal expenditures being audited. As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

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

Repeat Finding - Yes

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

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

**2018-004 Adverse Opinion Over Discretely Presented Component Unit
 Material Weakness**

Criteria - Proper controls over financial reporting include the ability to prepare financial statements, including all component units, and the accompanying notes to the financial statements.

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements that include all discretely presented component units. As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

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

Repeat Finding - No

Recommendation - While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Adequate financial records and documentation for the Water Resource District should be maintained to allow for proper financial reporting, and management and the Board should continually be aware of the financial reporting of McKenzie County and changes in reporting requirements.

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

Compliance Item for Continuing Disclosure

2018-005 Failure to Provide Continuing Disclosure

Criteria – The County’s State Aid Refunding Certificates of Indebtedness, Series 2018, include continuing disclosure requirements that the County is required to submit to comply with SEC rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934.

Condition – The County did not complete the required continuing disclosures within 9 months of its year-end which was by September 30, 2019 for the year ended December 31, 2018.

Cause – The County was aware of the continuing disclosure requirements but the audit report for the year ended December 31, 2018 was not finalized until May 2020.

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

Recommendation – We recommend that the County provide the completed audit report immediately after it is finalized.

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